

# NOTES TO FINANCIAL STATEMENTS

## December 31, 2003

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Seattle, which conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), are regulated by the Washington State Auditor's Office. The City's significant accounting policies are described below.

#### REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

#### Indicators of Financial Accountability

The financial statements include the organizations for which the elected officials of the City of Seattle are financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and
  - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or
  - Provisions by the organization of specific financial benefits to the City; or
  - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;
- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

#### Joint Ventures

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. (Note 11)

The City participates in joint ventures with King County as follows:

Seattle-King County Department of Public Health

Seattle-King County Work Force Development Council

## Organizations Excluded: Related Organizations

Organizations for which the City has appointed a voting majority of the members of the governing body, but for which the City is not financially accountable, are as follows:

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

## ACCOUNTING STANDARDS

The City implemented the following Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) statements:

In December 1998 GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Statement establishes accounting and financial reporting standards for state and local governments to report the results of nonexchange transactions involving cash and other financial and capital resources. It requires the reporting of all nonexchange transactions in the financial statements as revenues effective for periods beginning after June 15, 2000. Capital fees, contributions, and grants were reported by the proprietary funds as a component of equity as contributions in aid of construction prior to implementation of GASB Statement No. 33. The cumulative effect of the adoption of GASB Statement No. 33 was made in 2002 in conjunction with the implementation of GASB Statement No. 34.

In June 1999 the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. This statement provides the most significant changes in financial reporting for more than twenty years. The objective is to enhance the understandability and usefulness of the financial reports to the citizenry, legislative and oversight bodies, investors, and creditors. This statement establishes new accounting and financial reporting standards for general purpose external financial reporting by the governments. It establishes specific standards for the basic financial statements, management's discussion and analysis (MD&A), and other required supplementary information (RSI). The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements.

In June 2001 the GASB issued Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*. This statement was issued to amend certain provisions in GASB Statements No. 21 and No. 34. The City implemented GASB Statement No. 34 and the applicable amendments in 2002.

Also in June 2001 the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement was issued to establish and modify disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

In August 2001 the FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to Be Disposed Of*. Statement No. 144 retains the basic provisions of Statement No. 121 for the measurement and recognition of the impairment of long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. Statement No. 144 resolves significant implementation issues related to Statement No. 121 and retains the amendments in Statement No. 121 pertaining to regulatory assets under Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and Statement No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*. Statement No. 144 is effective for fiscal years beginning after December 15, 2001, and was adopted by the City in the Light Fund, an enterprise fund, in 2002 without an impact to financial position or operations.

In April 2002 the FASB issued Statement No. 145, *Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Statement No. 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* have been met. Statement No. 145 provisions regarding early extinguishment of debt generally apply to the Light Department for advance refundings using cash, and this statement was adopted by the Light Fund in 2003 without material impact to financial position or operations. For advance refundings made by issuance of new bonds, the transactions are accounted for in accordance with GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt* and GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*.

In April 2003 the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends Statement No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement No. 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative (in particular, the meaning of an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, the meaning of underlying, and the characteristics of a derivative that contain financing components). This statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The provisions of Statement No. 149 that relate to Statement No. 133 implementation issues that were effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective dates. In addition, certain provisions relating to forward purchases or sales of “when-issued” securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. City Light has entered into certain forward contracts to purchase or sell power that may no longer meet the normal purchases and sales exception in accordance with the provisions of Statement No. 149. This statement requires that substantially all new forward contracts to purchase or sell power, which were entered into on or after July 1, 2003, be recorded as assets or liabilities at market value with an offsetting regulatory asset or liability as allowed under Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*.

In July 2003 the Emerging Issues Task Force (EITF) reached consensus on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes as Defined in EITF Issue No. 02-3*. This EITF issue requires that revenues and expenses from City Light’s settled energy contracts that are “booked out” (not physically delivered) should be reported on a net basis as part of operating revenues. As allowed by this EITF issue, the Light Fund applied these provisions for the entire year in 2003 and reclassified 2002 to conform to current year presentation. Booked-out power transactions reduced revenues and expenses by \$21.3 million and \$10.7 million in 2003 and 2002, respectively.

In June 2003 the GASB issued Technical Bulletin No. 2003-1 (TB 03-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures, pending the results of the GASB’s project on reporting and measurement of derivatives and hedging activities. TB 03-1 applies to derivatives that are not reported at fair value on the statement of net assets and adopts the definition of derivatives established by the FASB in paragraphs 6 through 9 of Statement No. 133 as amended; those paragraphs make reference to reporting requirements applicable to embedded derivatives in paragraph 12 of that statement, as amended. TB 03-1 is not intended to apply to embedded derivatives except for the following transactions which are within the scope of TB 03-1: (1) a derivative transaction that involves either cash receipts or cash payments at inception equal to the derivative’s fair value; (2) a prepaid interest rate swap. TB 03-1 is effective for fiscal years ending after June 15, 2003, and was adopted by the City in 2003 without material impact to financial position or operations.

## GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report the financial position and activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on charges and fees for their services. Resources of fiduciary activities, which are not available to finance governmental programs, are excluded from the government-wide statements

### Statement of Net Assets

The statement of net assets reports all financial and capital resources. The difference between assets and liabilities is net assets. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The amount reported as invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are restricted when constraints placed on net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

For permanent endowments, net assets are displayed showing the nonexpendable and the expendable components separately. Nonexpendable net assets are those that are required to be retained in perpetuity and are reported as restricted net assets. Unrestricted net assets are those that are not “invested in capital assets, net of related debt” or “restricted.”

## Statement of Activities

The statement of activities displays the degree to which the direct expenses of a given function or segment are funded by program revenues. Direct expenses are those that are clearly identifiable to a specific function. Direct expenses include depreciation on capital assets that are clearly associated with a given function. In general, expenses related to personnel functions are reported as indirect expenses. Program revenues include charges for services, grants, and contributions that are restricted for specific purposes. Taxes and other revenues not included as program revenues are reported as general revenues.

Interfund activity within governmental funds of the City is eliminated, except for the effect of services provided by the business-type activities, such as the sale of utility services to the general government and to other funds. This avoids misstatement of program revenues of the selling function and expenses of the various users. Operating income or (loss) reported by internal service funds in the fund financial statements are allocated back to the City departments either as a reduction or addition to their expenses by function.

## Fund Financial Statements

Separate fund financial statements are provided to report additional and detailed information for governmental funds, proprietary funds, and fiduciary funds. Even though fiduciary funds are excluded from the government-wide financial statements, these funds are reported in the fund financial statements under the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The statement of net assets and the statement of changes in net assets for the pension trust funds are presented in Note 10. Major individual governmental funds and major individual enterprise funds are presented as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The **Low-Income Housing Fund** manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for a seven-year housing levy approved by the voters in 2002 to provide, produce, and/or preserve affordable housing in Seattle and to assist low-income tenants in Seattle.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility, which owns and operates generating, transmission, and distribution facilities and serves more than 360,000 customers in the Seattle area.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 175 miles of water supply mains and more than 500 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of over 1,300,000 people, with an average daily total consumption of about 130 million gallons of water.

The **Drainage and Wastewater Fund** accounts for operating the sewer and drainage utility facilities and its pumping stations. These facilities and stations are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

Additionally, the City reports the following fund types:

There are two **permanent funds** of the City, the investment income or earnings of which are available only for disbursement. They are the **H. H. Dearborn Fund** and the **Beach Maintenance Trust Fund**.

**Internal service funds** account for support services furnished to other City departments such as the motor pool; printing and duplicating services; design, construction, and management services for capital improvement projects (CIP) funds; telecommunications; data communications; radio systems; and the fiber optic network.

**Fiduciary funds** account for assets held in a trustee or agency capacity. The City has three pension trust funds:

The **Employees' Retirement Fund** receives employees' payroll deductions for retirement and the City's matching contributions. It pays pension benefits to retired City employees.

The **Firemen's Pension Fund** accounts for revenues from an annual property tax levy of up to \$0.45 per assessed value, a portion of the state-levied fire insurance premium tax, and General Fund contributions.

The **Police Relief and Pension Fund** receives support almost entirely from the General Fund to pay for sworn police personnel's medical and pension benefits that are not covered by the state's Law Enforcement Officers and Fire Fighters' Retirement System and/or industrial insurance.

The City uses **agency funds** to report assets that are held in a custodial relationship. Agency funds are not used to support the government's own programs and so these funds are excluded from the government-wide statements. The City reports the following as agency funds: Guaranty Deposits, Payroll Withholding, Salary, Voucher, and Residual Cash Investments Funds.

## MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

### Government-wide Financial Statements

Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Basis of accounting refers to the point when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

### Governmental Fund Financial Statements

Financial statements for governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter (generally 60 days) to pay current liabilities. Revenues that are measurable but not available are recorded as receivables and offset by deferred revenues.

Property taxes, business and occupation taxes, and other taxpayer-assessed tax revenues due for the current year are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Special assessments are recognized as revenues only to the extent that those individual installments are considered as current assets. Intergovernmental revenues received as reimbursements for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues received but not earned are recorded as deferred revenues. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are recorded when the liability is incurred except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid.

### Proprietary Fund Financial Statements

Financial statements for proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Certain costs in the enterprise funds are deferred and expensed in future years as the utility rates recover these costs.

The revenues of the four utilities, which are based upon service rates authorized by the City Council, are determined by monthly or bimonthly billings to customers. Amounts received but not earned at year-end are reported as deferred revenues. Earned but unbilled revenues are accrued.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal activity. The principal operating revenues of the City's Light, Water, Solid Waste, Drainage and Wastewater Utilities, the Parking Garage, the Planning and Development Fund, and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personnel services, contractual services, other supplies and expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has chosen flexible application and reporting in accordance with the election of each fund. City Light elected to apply all GASB pronouncements as well as all FASB statements and interpretations except where they conflict with GASB pronouncements. All other enterprise funds elected to apply all GASB pronouncements and those FASB statements and interpretations issued on or before November 30, 1989, except when they contradict GASB pronouncements.

## Fiduciary Fund Financial Statements

Financial statements for the fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

## BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounts are integrated in the fund database for all budgeted funds, including CIP and Community Development Block Grant (CDBG) projects. However, the annual financial report includes budgetary comparisons for annually budgeted governmental operating funds only. Note 2, Stewardship, Compliance, and Accountability, discusses in detail the City's budgetary policies and processes.

## ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

### Cash and Investments

The City is authorized to purchase U.S. Treasury and government agency securities, certificates of deposits and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by Revised Code of Washington (RCW) 39.58, bankers' acceptances purchased in the secondary market, commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies, and repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements.

The City and the Seattle City Employees' Retirement System (SCERS) are also authorized under state law to make security lending transactions. Under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Securities lent must be collateralized with cash or securities having 102 percent of the market value of the loaned securities. The City and SCERS have the ability to pledge or sell collateral securities without borrower default. SCERS had outstanding securities lending transactions at the end of the year. Gross income from securities lending transactions, as well as the various fees paid to the institution that oversees the lending activity, are recorded in the operating statements. Assets and liabilities include the value of the collateral that is being held.

Under the City's investment policy, all temporary cash surpluses are invested. Pooled investments are reported on the combined balance sheet as cash and equity in pooled investments. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balance during the preceding month. It is the objective of the City's investment program to ensure the safety of the City's capital. This is accomplished through a program of diversification and maturity limitations.

Since the participating funds in the City's internal investment pool use the pool as if it were a demand deposit account, the proprietary fund cash and equity in pooled investments is considered cash for cash flow reporting purposes.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Venture capital and real estate equities are reported at fair value, which has been determined by independent appraisers.

The following policies guide the City's investments decisions:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are done on a delivery-versus-payment basis.

- The standard of prudence to be used by investment personnel shall be the “Prudent Person Rule” and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

The Seattle City Employees’ Retirement System’s investment management policies are set by the Retirement Board. The major difference is that state law allows the System to invest in longer-term maturities and in a broader variety of securities, such as real estate and equity issues. The Board policies require that investments in any one corporation or organization may not exceed five percent of net assets available for benefits. Less than five percent of plan assets can be invested in derivative securities. All derivatives are high-quality, nonleveraged securities consisting of collateralized mortgage obligations, Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk.

### Receivables

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/due from other funds.

Advances to other funds in governmental funds are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

### Inventories

Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies held for consumption.

The cost is recorded as expenditure in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. Governmental fund inventories are equally offset by a fund balance reserve, which indicates that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

### Capital Assets

The City classifies assets with an estimated useful life in excess of one year as capital assets. As a general rule, items with an initial individual cost of \$5,000 or more are capitalized.

Governmental infrastructure assets include long-lived capital assets such as roads, bridges, and tunnels that normally can be preserved for a significantly greater number of years than most capital assets. Estimated historical costs were established based on the City’s street reports to the state. Works of art have been valued at historical cost. In cases where the historical cost is not available the method used was “backtrending,” i.e., deflating the current replacement cost using the appropriate price index. Donated capital assets are valued at their estimated fair market value at the time of donation. For proprietary funds, contributions of capital assets are reported under capital grants and contributions in the statement of revenues, expenses, and changes in fund net assets.

Most capital assets are depreciated for the governmental funds. Annual depreciation is recorded in government-wide statements as an expense of the governmental function for which the assets are being used. Depreciation is computed using the straight-line method over estimated service lives as follows:

Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Utility plant	33 - 100 years
Equipment	2 - 25 years

Composite rates are used in the enterprise funds for depreciating asset groups. Consequently, when an asset is retired, its original cost together with removal costs less salvage is charged to accumulated depreciation. The cost of current maintenance and repairs is charged to expense, while the cost of renewals and betterments is capitalized.

## **Restricted Assets**

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes.

Capital leases are recorded at the present value of future lease payments and amortized on a straight-line basis over the life of the lease.

## **Deferred Charges**

Deferred charges may include the preliminary costs of projects and information systems, programmatic conservation costs, landfill closure costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond issues.

Preliminary costs incurred by the enterprise funds for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; costs are charged to expense if a project is abandoned or deferred if the costs are to be recovered through future use. Conservation program costs in the Light and Water utilities which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives due to the utilities' capital financing plans and rate-setting methodology. Costs of administering the overall program are expensed as incurred.

In the proprietary funds the bond premium and discount are amortized using the effective-interest method over the term of the bonds. The excess costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using either straight-line or effective-interest methods over the shorter of the remaining life of the old debt or the life of the new bond issue. Bond issue costs are amortized over the life of the bond. For all other funds, deferrals and amortizations are recognized and reported directly in the government-wide statements under governmental activities.

To the extent landfill closure costs are covered by grants, the Solid Waste Utility reports these costs as operating expense. Solid Waste's portion of the costs is deferred and amortized as it is recovered from the ratepayers.

## **Accumulated Compensated Absences**

Compensated absences, including payroll taxes, are reported as current and noncurrent liabilities in the statement of net assets. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method.

### ***Vacation Pay***

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or termination is considered vested and payable to the employee.

### ***Sick Pay***

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25 percent of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement.

### ***Other Compensated Absences***

Other compensated absences include compensatory time in lieu of overtime pay, merit credits earned by fire fighters, furlough earned by police, holiday earned by library and police employees, and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

## **Risk Management**

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City's average investment rate of return (Note 13).



### Other Accrued Liabilities

Other accrued liabilities include deposits, interest payable on obligations other than bonds, and current portions of lease-purchase agreements.

### Interfund Activity and Contracts/Advances

Interfund activity and balances in the funds are eliminated or reclassified in the process of aggregating data for the statement of net assets and the statement of activities.

Interfund debt is recorded in the appropriate funds even though that debt may result in a noncurrent liability for a governmental fund because the debt is not a general obligation of the City.

### Deferred Revenues

Deferred revenues include amounts collected before revenue recognition criteria are met and receivables because, under the modified accrual basis of accounting, they are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts, mortgages receivable, grant funds received in advance of expenditures in governmental funds, and the amounts loaned by the Housing and Community Development Revenue Sharing Fund, a special revenue fund, under authorized federal loan programs.

Deferred credits include deferred revenues and revenues collected or billed in advance.

### Reservations and Designations

A reservation is used to segregate a portion of fund balance that is either not appropriable for expenditures or is legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

In cases where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

### Program Revenues

Program revenues are revenues derived directly from the program itself. These revenues reduce the net cost of the function to be financed from the City's general revenues. The statement of activities separately reports three categories of program revenues: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenues that do not meet the criteria of program revenues are reported as general revenues.

## (2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### BUDGETARY INFORMATION

The City budgets for the General Fund and some special revenue funds on an annual basis. The special revenue funds which have legally adopted annual budgets are the Park and Recreation Fund, the Transportation Fund, the Library Fund, the Seattle Center Fund, the Human Services Operating Fund, and the Office of Housing Fund.

The City Council approves the City's operating budget. In addition, the City Council annually approves two separate but related financial planning documents: the Capital Improvement Program (CIP) plan and the Community Development Block Grant (CDBG) program allocation.

The operating budget is proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The budget is designed to allocate available resources on a biennial basis among the City's public services and programs and provides for associated financing decisions. This budget appropriates fiscal year expenditures and establishes employee positions by department and fund except for project-oriented, multiyear appropriations made for capital projects, grants, or endowments.

Table 2-1

## APPROPRIATION CHANGES – GENERAL FUND (In Thousands)

	2003
<b>Annual Budget</b>	\$ 819,720
<b>Carryovers</b>	
Encumbrances	5,596
Continuing Appropriations	45,426
Carryover Adjustments	(422)
Intrafund	(107,236)
<b>Budget Revisions</b>	34,281
<b>Total Budget</b>	\$ 797,365

The CIP plan is also proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The CIP is a six-year plan for capital project expenditures and anticipated financing by fund source. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multiyear expenditures identified in the CIP. These expenditures are legally authorized through the annual operating budget or by specific project ordinances during the year.

The CDBG planning process allocates the annual grant awarded by the federal government. Allocations are made to both City and non-City organizations. Legal authority is established each year by a separate appropriation ordinance for the Housing and Community Development Revenue Sharing Fund.

Budgetary control for the operating budget generally is maintained at the budget control level within departments with the following exceptions. The Library Fund has its total budget set at fund level by the City Council, but its actual expenditures are controlled by the Library Board. Capital projects programmed in the CIP are controlled at the project or project-phase level or program depending on legal requirements. Grant-funded activities are controlled as prescribed by law and federal regulations.

The City Council may by ordinance abrogate, decrease, or reappropriate any unexpended budget authority during the year. The City Council, with a three-fourths vote, may also increase appropriations. Emergency Subfund appropriations related to settlement of claims, emergency conditions, or laws enacted since the annual operating budget ordinance require approval by two-thirds of the City Council.

The Finance Director may approve the transfer of appropriations. Beginning in 2003 the following restrictions to budget transfers are imposed by ordinance. Total budget year transfers into a budget control level may not exceed 10 percent of its original budgeted allowance, and in no case may they be greater than \$500,000. Total transfers out may not exceed 25 percent of the original budgeted allowance. Within a budget control level departments may transfer appropriations without Finance Department approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Executive Administration. Budget figures consist of the adopted annual budget, which includes appropriation carryovers from previous years and any revisions during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances, which do not lapse and are included with expenditures.

## DEFICITS IN FUND BALANCES AND NET ASSETS

The Seattle Center Fund shows a negative fund balance of \$7.2 million. A continued downturn in the economy depressed disposable income levels and hence the number of Seattle Center visitors. Significant expense cuts partially offset the impact of the revenue shortfall but could not prevent a negative fund balance. The negative fund balance is expected to continue in 2004. The City Council has approved an interfund loan to cover the negative cash balance (Ordinance 121262).

The Engineering Services Fund has \$5.9 million of deficit net assets. This deficit is largely the consequence of inadequate overhead rates during the mid-1990s, which led to significant under-recovery of expenditures and disputed costs on projects performed for other agencies and departments. Disputed billing and overhead issues have been addressed and are now closely monitored. Billing disputes, primarily with the Washington State Department of Transportation (WSDOT), have been resolved. Deficit-recovery surcharges are being applied to Engineering Services Fund services, and the financial position of the Engineering Services Fund is expected to improve in future years.

The Downtown Parking Garage Fund has a negative fund equity of \$14.1 million. This deficit is attributable to the effect of depreciation and deferred interest which are expected to be covered by future operating revenues. Since 2000 the Garage

has been generating sufficient revenues to cover all operating expenses and current debt service but not depreciation and deferred interest. The negative fund balance situation will continue; however, the Garage is expected to cover future operating costs and debt service as they come due.

## (3) CASH AND INVESTMENTS

The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to \$100,000. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the state of Washington. The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 11 percent of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss. Therefore, PDPC protection is that of collateral, not of insurance.

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold most of the City's investments in the City's name. These investments are classified risk category 1. In some cases the trust department of the City's depository bank holds City investments in the City's name. These investments are classified risk category 2. Certain investments are uninsured and held by the trust department of the City's agent in the agent's name. These are classified risk category 3. The City currently has no investments in categories 2 and 3.

**Table 3-1** **INVESTMENTS BY RISK CATEGORY AND TYPE**  
*(In Thousands)*

	<u>Treasury Residual Investments</u>	<u>Fair Value Securities Held for Dedicated Funds</u>	<u>Employees' Retirement System Investments</u>	<u>Carrying Amount</u>
<b>CATEGORY 1 INVESTMENTS</b>				
Commercial Paper	\$ 101,414	\$ 9,198	\$ -	\$ 110,612
Certificates of Deposit	25	-	-	25
U.S. Government Obligations	24,994	-	179,339	204,333
Agencies	441,548	83,762	-	525,310
Corporate Bonds	-	-	138,206	138,206
Common Stock	-	-	753,245	753,245
International Stock	-	-	172,921	172,921
Non - U.S. Bonds	-	-	11	11
Total Category 1 Investments	567,981	92,960	1,243,722	1,904,663
<b>INVESTMENTS NOT SUBJECT TO CREDIT RISK</b>				
Mortgages	-	-	53	53
Realty Equities	-	-	114,774	114,774
Venture Capital	-	-	126,301	126,301
Short-Term Investment Funds	-	-	181,284	181,284
Total Investments Not Subject to Credit Risk	-	-	422,412	422,412
<b>Total Investments</b>	<u>\$ 567,981</u>	<u>\$ 92,960</u>	<u>\$ 1,666,134</u>	<u>\$ 2,327,075</u>

## SECURITIES LENDING TRANSACTIONS

Gross income from securities lending transactions of the Seattle City Employee's Retirement System (SCERS) are reported in the fund's operating statements as well as the various fees paid to the institution that oversees the lending activity. Assets and liabilities include the value of the collateral that is being held.

Under the authority of Washington State RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the SCERS Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are loaned for the purpose of generating additional income to SCERS. SCERS lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of

the collateral. There are no restrictions on the amount of securities that may be loaned. The contractual agreement with SCERS' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay SCERS income distribution by the securities' issuers while the securities are on loan. Cash and U.S. government securities were received as collateral for these loans. SCERS cannot pledge or sell collateral securities without a borrower default. SCERS invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. There have been no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2003.

**Table 3-2** **SECURITIES LENT AND COLLATERAL**  
(In Thousands)

TYPE OF SECURITIES LENT	2003		2002	
	Fair Value of Securities Lent	Collateral	Fair Value of Securities Lent	Collateral
U.S. Government and Agencies	\$ 61,685	\$ 63,080	\$ 69,168	\$ 69,732
U.S. Corporate Fixed Income	16,555	16,928	22,912	23,502
U.S. Equities	66,363	68,219	37,345	38,641
Non-U.S. Equities	-	-	1,859	1,942
<b>Total Securities Lent</b>	<b>\$ 144,603</b>	<b>\$ 148,227</b>	<b>\$ 131,284</b>	<b>\$ 133,817</b>

  

COLLATERAL REPORT	2003	2002
U.S. Corporate Obligations	\$ 77,514	\$ 114,506
Bank Obligations	22,985	5,000
Repurchase Agreement	47,727	14,311
<b>Total Collateral</b>	<b>\$ 148,226</b>	<b>\$ 133,817</b>

## REVERSE REPURCHASE AGREEMENTS

The City regularly enters into reverse repurchase agreements as part of its investment policies. These agreements are sales of securities with simultaneous agreements to repurchase them at a future date at the same prices plus contracted rates of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The City has no reverse repurchase agreements at year-end.

**Table 3-3**

**CASH AND INVESTMENTS**  
*(In Thousands)*

Cash and Equity in Pooled Investments	
Current Assets (Nonrestricted)	\$ 418,227
Restricted	
Restricted Cash and Equity in Pooled Investments	155,385
Restricted Investments	<u>92,438</u>
Total Cash and Equity in Pooled Investments	\$ 666,050
Investments	
Current Assets (Nonrestricted)	1,666,582
Cash with Fiscal Agent	<u>77</u>
<b>Total - December 31, 2003</b>	<b><u>\$ 2,332,709</u></b>
COMPOSITION	
Cash and Investments	\$ 2,324,914
Cash with Fiscal Agent	77
Trustee Accounts	
Municipal Courts	428
Retainage on Public Works Contracts in Escrow	<u>7,290</u>
<b>Total Cash and Investments</b>	<b><u>\$ 2,332,709</u></b>

The City recorded the net increase (decrease) in the fair value of investments at December 31, 2003 and 2002, as a component of interest income, summarized as follows.

**Table 3-4**

**INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS**  
*(In Thousands)*

	<u>2003</u>	<u>2002</u>
Realized Interest Income	\$ 38,719	\$ 41,213
Net Increase (Decrease) in the Fair Value of Investments	<u>155</u>	<u>8,834</u>
<b>Totals</b>	<b><u>\$ 38,874</u></b>	<b><u>\$ 50,047</u></b>

## **(4) RECEIVABLES AND INTERFUND TRANSACTIONS**

**Table 4-1**

**TAX REVENUES AND RECEIVABLES**  
*(In Thousands)*

	<u>2003 Revenues</u>	<u>December 31 2003 Receivables</u>
Property Taxes	\$ 268,300	\$ 6,183
General Business and Occupation Taxes	<u>174,781</u>	<u>34,951</u>
<b>Totals</b>	<b><u>\$ 443,081</u></b>	<b><u>\$ 41,134</u></b>

## **TAXING POWERS, LIMITATIONS, AND PROPERTY TAX CALENDAR**

State law limits the regular property tax rate for general City operations to \$3.60 per \$1,000 of assessed value. This includes \$3.15 for general municipal purposes and an additional \$0.45 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth

in the City's regular property tax levy to the lesser of 1.06 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 1.06 percent to 1.01 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 1.01 percent annual growth limit as long as the City's regular levy rate per \$1,000 of assessed value does not exceed the \$3.60 limit. Excess tax levies require a 60-percent approval by voters and do not fall under either of the limits. The City levied \$2.21 per \$1,000 for general operations and Firemen's Pension Fund in 2003. In addition, the levy included \$0.96 per \$1,000 of assessed value for debt service and other voter-approved levies. The total 2003 levy was \$3.16 per \$1,000 of assessed value.

Property taxes are levied by the County Assessor and collected by the County Finance Director. Assessments are based on 100 percent of true and fair-market value. They are levied and become a lien on the first day of the levy year. They may be paid in two equal installments if the total amount exceeds \$30. The first half is due on April 30, or else the total amount becomes delinquent May 1. The balance is due October 31, becoming delinquent November 1. Delinquent taxes bear interest at the rate of one percent per month until paid and are subject to additional penalties of three percent and another eight percent on the total unpaid delinquent balance on June 1 and December 1, respectively. Foreclosure action is commenced on properties when taxes are delinquent for three years.

## INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between funds. The interfund balances are presented in the balance sheets for governmental funds and statements of net assets for proprietary funds.

The tables on the following pages show the current interfund balances at December 31, 2003, as reported in the fund financial statements.

**Table 4-2**

### **DUE FROM AND TO OTHER FUNDS** *(In Thousands)*

<u>Receivable Fund</u>	<u>Payable Fund(s)</u>	<u>Amount</u>
General	Drainage and Wastewater	\$ 1,544
	Nonmajor Enterprise	874
	Fiduciary	386
	Nonmajor Governmental	2,888
	Internal Service	3,602
	Light	3,621
	Water	941
		<u>13,856</u>
Low-Income Housing	Fiduciary	76
	Nonmajor Governmental	784
		<u>860</u>
Light	Drainage and Wastewater	190
	Nonmajor Enterprise	76
	Fiduciary	89
	General	551
	Nonmajor Governmental	53
	Internal Service	275
	Water	224
		<u>1,458</u>

**Table 4-2**

**DUE FROM AND TO OTHER FUNDS (Continued)**  
**(In Thousands)**

<u>Receivable Fund</u>	<u>Payable Fund(s)</u>	<u>Amount</u>
Water	Drainage and Wastewater	\$ 98
	Nonmajor Enterprise	1,223
	Fiduciary	97
	General	68
	Nonmajor Governmental	9
	Internal Service	160
	Light	115
		<u>1,770</u>
Drainage and Wastewater	Nonmajor Enterprise	2
	Fiduciary	56
	General	67
	Nonmajor Governmental	41
	Internal Service	40
	Light	163
	Water	108
		<u>477</u>
Nonmajor Governmental	Drainage and Wastewater	739
	Nonmajor Enterprise	273
	Fiduciary	469
	General	3,019
	Nonmajor Governmental	3,250
	Internal Service	333
	Low-Income Housing	254
	Light	654
	Water	297
		<u>9,288</u>
Nonmajor Enterprise	Drainage and Wastewater	127
	Nonmajor Enterprise	15
	Fiduciary	54
	General	180
	Nonmajor Governmental	84
	Internal Service	32
	Light	94
	Water	2
		<u>588</u>
Internal Service	Drainage and Wastewater	484
	Nonmajor Enterprise	240
	Fiduciary	93
	General	2,371
	Nonmajor Governmental	3,191
	Internal Service	144
	Light	1,167
	Water	828
		<u>8,518</u>
Fiduciary	Fiduciary	572
	General	2
	Nonmajor Governmental	1
	Light	79
		<u>654</u>
<b>Grand Total</b>		<u><u>\$ 37,469</u></u>

The balances in Table 4-2 resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Table 4-3**                      **ADVANCES, NOTES, AND LOANS FROM AND TO OTHER FUNDS**  
(In Thousands)

<u>Advances, Notes, and Loans From</u>	<u>Advances, Notes, and Loans To</u>	<u>Amount</u>
General	Parks and Recreation	\$ 500
	Seattle Center	9,002
	City Light	5,159
	Engineering Services	<u>5,200</u>
Total General Fund		19,861
Education and Development Services	City Light	16,000
Municipal Civic Center	City Light	28,500
Seattle Center and Parks Multipurpose Levy	City Light	<u>25,500</u>
<b>Total City</b>		<u><b>\$ 89,861</b></u>

**Table 4-4**                      **INTERFUND TRANSFERS**  
(In Thousands)

<u>Transfers In</u>	<u>Transfers Out</u>					<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	
General Fund	\$ -	\$ 1,797	\$ -	\$ 3,031	\$ -	\$ 4,828
Nonmajor Governmental	193,560	45,844	25	1,073	2	240,504
Nonmajor Enterprise	9,594	-	-	-	-	9,594
Internal Service	9,141	-	-	-	-	9,141
Fiduciary	14,852	-	-	-	-	14,852
<b>Total Transfers</b>	<u><b>\$ 227,147</b></u>	<u><b>\$ 47,641</b></u>	<u><b>\$ 25</b></u>	<u><b>\$ 4,104</b></u>	<u><b>\$ 2</b></u>	<u><b>\$ 278,919</b></u>

Transfers are used to (1) move revenues from the fund wherein the statute or budget requires them to be collected to the fund wherein the statute or budget requires them to be expended and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended December 31, 2003, the City transferred \$20,000, the remaining assets and liabilities, from the Initiative 53 Planning Fund and \$678 from the Low-Income Elderly and Handicapped Housing Development Fund to the General Fund due to their closure and elimination. There was also a transfer of \$5,107 from the Seattle Center Redevelopment/Parks Community Center Fund to the Seattle Center and Parks Multipurpose Levy Fund, both capital projects funds.



## (5) CAPITAL ASSETS

Table 5-1

### CHANGES IN CAPITAL ASSETS (In Thousands)

	Balance January 1 (Restated)	Additions	Deletions	Balance December 31
<b>GOVERNMENTAL ACTIVITIES <sup>a</sup></b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 301,460	\$ 46,402	\$ 2,284	\$ 345,578
Construction in Progress	396,870	298,271	322,325	372,816
Total Capital Assets Not Being Depreciated	698,330	344,673	324,609	718,394
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	980,027	262,400	31,172	1,211,255
Machinery and Equipment	177,550	21,944	16,487	183,007
Infrastructure	796,741	16,419	11	813,149
Other Capital Assets	5,407	1,701	144	6,964
Total Capital Assets Being Depreciated	1,959,725	302,464	47,814	2,214,375
Accumulated Depreciation				
Buildings and Improvements	256,131	25,713	14,599	267,245
Machinery and Equipment	111,677	16,238	26,408	101,507
Infrastructure	327,571	25,104	8	352,667
Other Capital Assets	514	81	-	595
Total Accumulated Depreciation	695,893	67,136	41,015	722,014
Total Capital Assets Being Depreciated, Net	1,263,832	235,328	6,799	1,492,361
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 1,962,162</b>	<b>\$ 580,001</b>	<b>\$ 331,408</b>	<b>\$ 2,210,755</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 54,387	\$ 8,210	\$ -	\$ 62,597
Construction in Progress	417,465	258,629	326,053	350,041
Total Capital Assets Not Being Depreciated	471,852	266,839	326,053	412,638
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	3,468,281	298,598	13,678	3,753,201
Buildings	73,013	-	-	73,013
Machinery and Equipment	8,130	2,402	-	10,532
Other Capital Assets	10,353	4,162	5	14,510
Total Capital Assets Being Depreciated	3,559,777	305,162	13,683	3,851,256
Accumulated Depreciation				
Plant in Service, Excluding Land	1,279,327	107,350	18,757	1,367,920
Buildings	9,736	2,433	-	12,169
Machinery and Equipment	1,225	832	-	2,057
Total Accumulated Depreciation	1,290,288	110,615	18,757	1,382,146
Total Capital Assets Being Depreciated, Net	2,269,489	194,547	(5,074)	2,469,110
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 2,741,341</b>	<b>\$ 461,386</b>	<b>\$ 320,979</b>	<b>\$ 2,881,748</b>

<sup>a</sup> The capital assets for governmental activities include the capital assets of the internal service funds. Schedules I-1, I-2, and I-3 provide additional information on the governmental funds capital assets.

Table 5-2

**DEPRECIATION EXPENSE BY FUNCTION**  
(In Thousands)

**GOVERNMENTAL ACTIVITIES**

General Government	\$ 12,807
Public Safety	677
Judicial	153
Transportation	25,227
Economic Environment	10
Culture and Recreation	15,360
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	12,902
<b>Total Governmental Activities</b>	<b>\$ 67,136</b>

**BUSINESS-TYPE ACTIVITIES**

Light	\$ 70,657
Water	26,092
Solid Waste	3,039
Drainage and Wastewater	7,562
Planning and Development	802
Parking Garage	2,463
<b>Total Business Type Activities</b>	<b>\$ 110,615</b>

## (6) COMPENSATED ABSENCES

### GOVERNMENTAL FUNDS

Unpaid compensated absences associated with governmental fund operations of \$48.4 million and \$46.3 million at December 31, 2003 and 2002, respectively, have been recorded in the government-wide statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of \$11 million and \$9.3 million at the end of 2003 and 2002, respectively; accumulated unpaid vacation pay of \$29.3 million and \$29.0 million at the end of 2003 and 2002, respectively; and the balance for sick leave which was estimated based on the termination method.

### PROPRIETARY FUNDS

Unpaid compensated absences for the proprietary and pension trust funds were \$22.2 million and \$21.4 million on December 31, 2003 and 2002, respectively, as follows:

Table 6-1 **COMPENSATED ABSENCES IN PROPRIETARY AND PENSION TRUST FUNDS**  
(In Thousands)

	<b>2003</b>	<b>2002</b>
<b>Enterprise Funds</b>		
Light	\$ 10,718	\$ 10,666
Water	3,413	3,161
Drainage and Wastewater	1,911	1,707
Solid Waste	1,024	1,011
Design, Construction, and Land Use	1,809	1,705
<b>Internal Service Funds</b>		
Fleets and Facilities	1,603	1,553
Information Technology	1,073	1,052
Engineering Services	478	442
<b>Pension Trust Funds</b>		
Employees' Retirement	52	45
Firemen's Pension	91	13
Police Relief and Pension	62	62
<b>Totals</b>	<b>\$ 22,234</b>	<b>\$ 21,417</b>

Compensated absences in governmental activities and business-type activities are presented in the aggregate in Note 8, Long-Term Debt, Table 8-5, which also shows the amount estimated to be due within the year.

## **(7) LEASES**

### **CAPITAL LEASES**

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and government-wide statements. The net capital lease assets shown below reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

**Table 7-1**

#### **CAPITAL LEASES** *(In Thousands)*

<u>Net Capital Lease Assets</u>	<u>Capital Assets – Governmental Activities</u>
Machinery and Equipment	\$ 22
Less Accumulated Depreciation	<u>(3)</u>
<b>December 31, 2003</b>	<b><u>\$ 19</u></b>

  

<u>Minimum Capital Lease Payments</u>	<u>Long-Term Liabilities - Governmental Activities</u>
2004	\$ 5
2005	5
2006	5
2007	4
2008	<u>3</u>
Total Minimum Lease Payments	22
Less Interest	<u>(3)</u>
<b>Principal</b>	<b><u>\$ 19</u></b>

The principal portion of the minimum capital lease payments is presented in Table 8-5 of Note 8, Long-Term Debt.

### **OPERATING LEASES**

#### **Fleets and Facilities**

The City has operating lease commitments for both real and personal property. Most leases for real property are maintained for a duration of three years and are renewable at the end of the lease period. There are no projected rent increases apart from lease agreements entered into by the City.

**Table 7-2**

#### **FLEETS AND FACILITIES OPERATING LEASE COMMITMENTS** *(In Thousands)*

<u>Year Ending December 31</u>	<u>Minimum Payments</u>
2004	\$ 3,852
2005	2,110
2006	2,017
2007	2,017
2008	<u>2,017</u>
<b>Total</b>	<b><u>\$ 12,013</u></b>

## City Light

In December 1994 the City entered into an agreement on behalf of the Utility for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Utility's lessor. The Utility also has two other long-term operating leases for smaller facilities used for office and storage purposes. Expense under the leases totaled \$3.8 million and \$3.5 million in 2003 and 2002, respectively. Deferred credits related to the ten-year lease of office facilities in downtown Seattle totaled \$0.9 million and \$1.2 million at December 31, 2003 and 2002, respectively. There are no scheduled rent increases apart from these lease agreements.

Minimum payments under the lease are:

**Table 7-3** **CITY LIGHT OPERATING LEASE COMMITMENTS**  
*(In Thousands)*

<u>Year Ending December 31</u>	<u>Minimum Payments</u>
2004	\$ 3,798
2005	3,809
2006	511
2007	114
2008	84
Thereafter	<u>1</u>
<b>Total</b>	<b>\$ 8,317</b>

## LEASE REVENUES

The Fleets and Facilities Department collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at reduced rates in consideration of offsetting benefits accruing to the City as a result of the services they provide.

**Table 7-4** **MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY  
FLEETS AND FACILITIES**

	<u>2003</u>
Non-City Property Subleased to City Departments	\$ 7.3 million
City-Owned Property Occupied by City Departments	19.1 million
City-Owned Property Leased to Non-City Tenants	10.8 million

The amounts in the above table include the following:

- The City owns the Key Tower Building. In 2003 the gross rental revenues of the building recognized in the General Fund amounted to \$15.9 million. Of this amount, \$7.2 million relates to City department tenants.
- The Police Support Facility provides rental space for tenants. The gross rental revenues of the facility recognized in 2003 in the General Fund amounted to \$1.9 million of which \$0.7 million relates to City department tenants.
- Other City buildings, including non-City owned buildings, generated \$19.3 million in gross rental revenues accounted for in the Fleets and Facilities Fund, an internal service fund. Of this amount, \$11.3 million relates to City department tenants.
- Additionally, in 2003 the City recognized \$5.5 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place. The City obtained a beneficial transfer of ownership of the garage financed by the \$73.8 million limited tax general obligation bonds issued in 1998 for this purpose.

The Seattle Park Garage, acquired in March 2000, reported \$1.5 million of parking revenues in 2003 in the Fleets and Facilities Operating Fund. Garage operations in the Key Tower Building also generated \$1.6 million in parking revenues in 2003.

## **(8) LONG-TERM DEBT**

### **GENERAL OBLIGATION BONDS**

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO).

At the end of 2002 the original amount of general obligation bonds issued in prior years was \$1.2 billion. The amount of bonds outstanding at December 31, 2002, was \$952.0 million. The following two paragraphs discuss the general obligation bonds issued in 2003 as well as bond defeasance activity during the year.

On February 26, 2003, the City issued the \$60.9 million 2002 LTGO improvement and refunding bonds with interest rates ranging from 2.0 percent to 5.0 percent and which mature serially from August 1, 2002, through August 1, 2023. The proceeds of the bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the completion of the McCaw Hall, major earthquake repair of Park 90/5 facility, Seattle Center roof & structural replacement and repair, Alaskan Way Viaduct/Seawall Study, State Route 519 Project, Joint Training Facility and Civic Center Plan. In addition, \$4.0 million of the bonds issued were used to refund \$3.6 million of the 1994 taxable Seattle Center Coliseum term bonds. Further discussion on the refunding is shown in the “Advance and Current Refundings” section of this note.

On July 25, 2003, the City defeased \$4.9 million of the 1994 LTGO Seattle Center Coliseum bonds. The City placed its own resources in an irrevocable trust to provide for future debt service payments on the bonds. The defeased bonds are included in Table 8-6 under the “Advance and Current Refundings” section of this note.

The City had no short-term general obligation debt at the end of 2003.

The following table presents the individual general obligation bonds outstanding as of December 31, 2003, and other relevant information on each outstanding bond issue.

**Table 8-1**

**GENERAL OBLIGATION BONDS**  
*(In Thousands)*

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions		Bonds
					2003	To Date <sup>a</sup>	Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Fire Apparatus, 1993	02/01/93	07/01/93-05	4.637 %	\$ 785	\$ 70	\$ 635	\$ 150
Seattle Center Coliseum, 1994	03/17/94	10/01/97-14	7.065	73,400	11,315	65,835	7,565
Seattle Community Center, Fire Apparatus, Police Equipment, 1994	06/09/94	12/01/95-04	4.550	15,850	115	15,725	125
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122	28,670	1,030	13,525	15,145
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	-	-	97,740
Various Purpose-Key Tower, Police Support Facility, 1996 Series B	08/01/96	01/15/97-04	7.235	16,790	3,180	14,445	2,345
Various Purpose-Key Tower, Police Support Facility, 1996 Series C	08/28/96	01/15/20-26	1.550 <sup>b</sup>	5,595 <sup>c</sup>	-	-	5,595
Various Purpose-Key Tower, Police Support Facility, 1996 Series D	10/06/99	01/15/23-24	1.200 <sup>b</sup>	51,925 <sup>c</sup>	-	-	51,925
Various Purpose-Street Utility, Public Access Channel, Fiber Optic, 1996 Series E	12/19/96	10/01/97-03	4.196	14,685	180	14,685	-
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	1,615	8,935	17,735
SFMS Redevelopment, 1997 Series B	10/16/97	08/01/98-04	4.334	7,725	1,185	6,490	1,235
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	3,300	18,550	25,160
Summit, 1998 Series C	08/26/98	08/01/99-04	4.105	6,210	1,095	5,070	1,140
Deferred Interest Parking Garage, 1998 Series E	11/12/98	12/15/01-14	4.714	13,042	363	670	12,372 <sup>d</sup>
Parking Garage, 1998 Series F	11/12/98	12/15/14-28	5.148	60,805	-	-	60,805
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	4,265	15,425	70,075
Various Purpose-Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	3,730	11,825	117,935
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	4,575	5,580	119,930
Improvement (Various) and Refunding, 2002 Series B	09/26/02	10/01/03-14	3.127	64,560	1,800	1,800	62,760
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	-	-	60,855
Total Limited Tax General Obligation Bonds				929,787	37,818	199,195	730,592
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968 Series 1	10/01/68	10/01/70-08	4.726	1,700	70	1,290	410
Sewer Improvement, 1968 Series 1	10/01/68	10/01/70-08	4.726	7,000	295	5,315	1,685
Refunding-Various UTGO Bonds, 1998 Series A	03/17/98	09/01/98-17	4.470	53,865	4,895	24,615	29,250
Library Facilities, 1999 Series A	07/01/99	12/01/00-18	5.135	100,000	3,975	13,125	86,875
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	6,945	6,945	110,080
Total Unlimited Tax General Obligation Bonds				279,590	16,180	51,290	228,300
Total General Obligation Bonds				\$ 1,209,377	\$ 53,998	\$ 250,485	\$ 958,892

<sup>a</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

<sup>b</sup> Variable-rate bonds – interest rates in effect December 31, 2003. Effective September 3, 2003, interest is payable semiannually. These rates were used to calculate annual debt service interest requirements for these bonds.

<sup>c</sup> Of the original \$57.52 million taxable 1996C bonds, \$17 million were converted in October 1999 and \$34.925 million were converted in February 2003 to nontaxable 1996D bonds.

<sup>d</sup> The accreted value of the outstanding bonds as of December 31, 2003, is \$15,628,335. The difference is also recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund.

The requirements to amortize the general obligation bonds as of December 31, 2003, are presented in the following table. Debt service for the LTGO bonds is met by operating transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property

tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

**Table 8-2**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**GENERAL OBLIGATION BONDS**  
*(In Thousands)*

Year Ending December 31	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2004	\$ 47,164	\$ 40,104	\$ 2,104	\$ 3,645	\$ 93,017
2005	91,825	38,033	2,000	3,676	135,534
2006	61,915	34,195	1,881	3,725	101,716
2007	46,540	31,432	1,960	3,782	83,714
2008	41,585	29,314	2,039	3,853	76,791
2009-2013	200,230	117,573	6,197	21,081	345,081
2014-2018	179,770	69,785	16,337	15,293	281,185
2019-2023	114,020	31,110	27,655	9,008	181,793
2024-2028	73,980	13,934	17,510	1,738	107,162
2029-2032	24,180	2,793	-	-	26,973
<b>Total</b>	<b>\$ 881,209</b>	<b>\$ 408,273</b>	<b>\$ 77,683</b>	<b>\$ 65,801</b>	<b>\$ 1,432,966</b>

## REVENUE BONDS AND REVENUE ANTICIPATION NOTES

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. At the end of 2002 the original amount of revenue bonds and anticipation notes issued in prior years was approximately \$3.3 billion. The total outstanding amount at December 31, 2002, was \$2.7 billion. During 2003 an additional \$523.2 million of revenue bonds and \$6.2 million of revenue anticipation notes were issued as follows:

### City Light

On August 20, 2003, the City issued \$251.9 million in Municipal Light and Power (ML&P) improvement and refunding revenue bonds that bear interest at rates ranging from 4.0 percent to 6.0 percent and mature serially from November 1, 2004, through December 1, 2025, with term bonds to mature from 2026 through 2028. Proceeds were used to finance certain capital improvements and conservation programs and to refund \$118.9 million of the 1993 ML&P parity bonds. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

### Water

On May 12, 2003, the City issued \$271.3 million in Water System revenue and refunding bonds, with varying annual principal payments due from September 1, 2003, through September 5, 2033, with interest rates ranging from 4.625 percent to 6.0 percent. Proceeds of the issuance are used to finance certain capital improvement projects and conservation programs for the Utility and to refund \$159.1 million of the 1993 parity bonds. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

### Solid Waste

On November 3, 2003, the City issued Solid Waste Revenue bond anticipation notes (nonrevolving line of credit) dated November 3, 2003. The Solid Waste Utility Fund may draw on the line of credit an amount not to exceed \$21.3 million maturing on July 1, 2005. The first draw on the line of credit was in the amount of \$6.2 million on November 3, 2003. Interest on the draw is at a variable rate equal to either the LIBOR-based (London Inter-Bank Offering Rate) rate or the prime-based rate, as designated by the Director of Finance or designee.

The business-type funds had no short-term debt at December 31, 2003.

The following table presents the individual revenue bonds and anticipation notes outstanding as of December 31, 2003, and other pertinent information on each outstanding bond issue.

**Table 8-3 REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
(In Thousands)

	Issuance	Maturity	Effective	Bond	Redemptions		Bonds
Name and Purpose of Issue	Date	Dates	Interest Rates <sup>a</sup>	Issuance	2003	To Date <sup>b</sup>	Outstanding December 31
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
1990 Subordinate Lien	11/27/90	11/01/96-15	1.10-5.25%	\$ 25,000	\$ 1,000	\$ 6,300	\$ 18,700
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	.088-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	1.30-6.00	20,000	1,000	3,500	16,500
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	146,145	433,140	20,215
1993 Subordinate Lien	11/17/93	11/01/99-18	.088-6.00	22,000	900	4,200	17,800
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	2,830	111,550	3,450
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	1,940	6,125	53,875
1995 Parity, Series B	10/16/95	09/01/98-05	4.446	2,305	-	1,849	456
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	905	1,770	28,230
1996 Subordinate Lien	12/11/96	06/01/02-21	1.00-5.75	19,800	685	1,345	18,455
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	930	930	29,070
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	715	2,530	102,120
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	-	-	90,000
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	-	-	158,000
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	-	-	98,830
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	-	-	503,700
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	2,460	2,460	85,275
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	-	-	251,850
Total Light Bonds				2,097,225	159,510	575,699	1,521,526
MUNICIPAL WATER BONDS							
1993 Parity, Refunding	06/25/93	12/01/93-23	5.570	256,255	170,900	256,255	-
1995 Adjustable Rate	09/20/95	09/01/00-25	1.020	45,000	1,100	4,300	40,700
1997 Parity	04/08/97	08/01/97-17	5.720	53,000	1,065	6,085	46,915
1998 Parity	07/07/98	10/01/99-27	5.110	80,000	1,560	7,195	72,805
1999 Parity	06/23/99	03/01/00-29	5.317	100,000	1,765	6,680	93,320
1999 Parity, Series B	10/23/99	07/01/01-29	5.884	110,000	1,875	5,400	104,600
2001 Parity	11/20/01	11/01/05-31	5.000	52,525	-	-	52,525
2002 Adjustable Rate	05/15/02	05/15/03-32	1.100	65,000	1,200	1,200	63,800
2003 Parity, Refunding	05/12/03	09/01/03-33	6.000	271,320	14,500	14,500	256,820
Total Water Bonds				1,033,100	193,965	301,615	731,485
MUNICIPAL SEWER (DRAINAGE AND WASTEWATER) BONDS							
1995 Improvement/Refunding	12/28/95	12/01/96-25	5.309	40,390	1,035	5,640	34,750
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	455	2,540	21,630
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	930	3,250	51,750
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,030	2,030	58,650
2002 Improvement/Refunding	12/17/02	07/01/03-32	4.751	78,550	920	920	77,630
Total Drainage and Wastewater Bonds				258,790	4,370	14,380	244,410
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	3,390	16,445	24,455
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	195	725	4,775
Total Solid Waste Bonds				46,400	3,585	17,170	29,230
Total Utility Revenue Bonds				3,435,515	361,430	908,864	2,526,651
MUNICIPAL LIGHT AND POWER (ML&P) REVENUE ANTICIPATION NOTES							
2001	04/03/01	03/28/03	3.840	182,210	182,210	182,210	-
2002	11/21/02	11/21/03	1.559	125,000	125,000	125,000	-
Total Light Revenue Anticipation Notes				307,210	307,210	307,210	-
SOLID WASTE REVENUE ANTICIPATION NOTES							
2003	11/03/04	07/01/05	1.570	6,200	-	-	6,200
Total Utility Revenue Anticipation Notes				313,410	307,210	307,210	6,200
Total Utility Revenue Bonds and Anticipation Notes				\$ 3,748,925	\$ 668,640	\$ 1,216,074	\$ 2,532,851

<sup>a</sup> The ML&P subordinate lien bonds are variable rate bonds for which the life-to-date actual low and high rates are shown. The Municipal Water adjustable-rate bonds show the interest rate in effect at the end of 2003. These bonds are remarketed each week at market rates attained by remarketing agents, except for the 1990 and 1991B ML&P bonds which are in commercial paper mode and as such remarketed periodically for terms determined by the City at market rates obtained by remarketing agents. Solid Waste revenue anticipation notes are variable-rate interest notes in effect at December 31, 2003. Interest rates in effect at December 31, 2003, were used to calculate annual interest requirements for these bonds.

<sup>b</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.



The requirements to amortize the revenue bonds and anticipation notes as of December 31, 2003, are presented below.

**Table 8-4**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
*(In Thousands)*

Year Ending December 31	Light		Water		Drainage and Wastewater		Solid Waste		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 53,820	\$ 74,682	\$ 21,600	\$ 33,069	\$ 5,225	\$ 12,451	\$ 3,770	\$ 1,677	\$ 206,294
2005	57,226	72,497	20,540	31,973	5,445	12,221	10,165	1,431	211,498
2006	61,000	70,142	20,330	31,165	5,685	11,980	4,170	1,174	205,646
2007	64,250	67,364	18,180	30,363	5,940	11,724	4,390	956	203,167
2008	67,895	64,203	19,255	29,610	6,200	11,457	4,635	716	203,971
2009-2013	367,075	268,790	110,305	134,941	35,655	52,691	6,035	1,149	976,641
2014-2018	374,370	176,280	139,010	108,727	45,525	42,908	1,835	460	889,115
2019-2023	313,880	86,889	172,445	73,667	52,970	29,834	430	25	730,140
2024-2028	162,010	15,435	143,420	35,275	52,950	15,818	-	-	424,908
2029-2033	-	-	66,400	8,240	28,815	3,201	-	-	106,656
<b>Total</b>	<b>\$ 1,521,526</b>	<b>\$ 896,282</b>	<b>\$ 731,485</b>	<b>\$ 517,030</b>	<b>\$ 244,410</b>	<b>\$ 204,285</b>	<b>\$ 35,430</b>	<b>\$ 7,588</b>	<b>\$ 4,158,036</b>

The following table shows the long-term liability activity during the year ended December 31, 2003.

**Table 8-5**

## CHANGES IN LONG-TERM LIABILITIES (In Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 878,495	\$ 60,855	\$ 53,635	\$ 885,715	\$ 48,265
Add (Deduct) Deferred Amounts					
Issuance Premiums	5,526	2,746	1,468	6,804	-
Issuance Discounts	(10)	-	(7)	(3)	-
On Refunding	(4,151)	(847)	(3,082)	(1,916)	-
Total Bonds Payable	879,860	62,754	52,014	890,600	48,265
Notes and Contracts					
Capital Leases	7	19	7	19	3
Other Notes and Contracts	20,821	3,860	1,843	22,838	1,884
Total Notes and Contracts	20,828	3,879	1,850	22,857	1,887
Compensated Absences	49,325	45,323	43,069	51,579	12,412
Claims Payable <sup>a</sup>					
Workers' Compensation	18,815	2,993	5,367	16,441	5,682
General Liability	42,954	23,361	4,363	61,952	30,340
Health Care Claims	3,150	7,958	3,150	7,958	7,958
Total Claims Payable	64,919	34,312	12,880	86,351	43,980
Arbitrage Rebate Liability	2,567	-	1,197	1,370	1,257
<b>Total Long-Term Liabilities from Governmental Activities</b>	<b>\$ 1,017,499</b>	<b>\$ 146,268</b>	<b>\$ 111,010</b>	<b>\$ 1,052,757</b>	<b>\$ 107,801</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 73,540	\$ -	\$ 363	\$ 73,177	\$ 1,003
Revenue Bonds	2,364,911	523,170	361,430	2,526,651	84,415
Add (Deduct) Deferred Amounts					
Issuance Premiums	23,630	27,322	4,926	46,026	-
Issuance Discounts	(9,730)	-	(4,640)	(5,090)	-
On Refunding	(50,036)	(28,016)	(24,445)	(53,607)	-
Total Bonds Payable	2,402,315	522,476	337,634	2,587,157	85,418
Revenue Anticipation Notes Payable	307,210	6,200	307,210	6,200	-
Accrued Interest - Deferred Interest Bonds	2,627	712	83	3,256	287
Notes and Contracts - Other	1,347	-	128	1,219	127
Compensated Absences	18,249	14,759	14,132	18,876	1,358
Claims Payable <sup>a</sup>					
Workers' Compensation	7,669	523	2,279	5,913	2,286
General Liability	5,779	7,090	1,175	11,694	1,740
Environmental Liability					
General Contamination Cleanup	4,968	8,067	1,481	11,554	1,180
NOAA Settlement	928	-	784	144	144
Total Claims Payable	19,344	15,680	5,719	29,305	5,350
Arbitrage Rebate Liability	544	4	466	82	82
Landfill Closure and Postclosure Costs	28,515	-	1,092	27,423	1,093
Purchased Power Obligation	50,280	10,300	15,450	45,130	10,300
<b>Total Long-Term Liabilities from Business-Type Activities</b>	<b>\$ 2,830,431</b>	<b>\$ 570,131</b>	<b>\$ 681,914</b>	<b>\$ 2,718,648</b>	<b>\$ 104,015</b>

<sup>a</sup> See Note 13, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 13 also includes information on workers' compensation and health care.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year compensated absences and claims payable of these funds amounted to approximately \$3.2 million and \$1.5 million, respectively, and are liquidated from each fund's own resources; there were no notes and contracts outstanding. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds are liquidated using the General Fund. Arbitrage rebate liabilities in governmental activities are paid as they are due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 12, Commitments.

### ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs, the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds and used its own resources. City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the statement of net assets. The following paragraphs discuss the advance and current refundings that occurred in 2003.

The refunding portion of the 2003 LTGO improvement and refunding bonds issued on February 26, 2003, in the amount of \$4.0 million, refunded the \$3.6 million of the 1994 LTGO Coliseum taxable term bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$5.0 million, including \$1.4 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$5.2 million including interest of \$1.2 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$191,208, and the aggregate economic gain totaled \$181,984 at net present value.

The refunding portion of the 2003 ML&P improvement and refunding revenue bonds issued in August 2003 in the amount of \$115.7 million, refunded \$118.9 million of the 1993 ML&P parity bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$154.0 million including \$35.1 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$148.2 million, including \$32.5 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$5.8 million, and the aggregate economic gain totaled \$5.4 million at net present value.

The refunding portion of the 2003 Water System revenue and refunding bonds issued on May 12, 2003, in the amount of \$166.9 million, fully refunded \$159.1 million of the remaining balance of \$168.5 million 1993 parity and refunding bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$269.0 million, including \$100.5 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$248.4 million including \$81.5 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$20.6 million, and the aggregate economic gain was \$13.8 million at net present value.

The following is a schedule of outstanding bonds that are either refunded or defeased.

Table 8-6

## REFUNDED/DEFEASED BONDS (In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2003	Defeased Outstanding December 31
<b>GENERAL OBLIGATION BONDS</b>							
Limited Tax (Non-Voted)							
Seattle Center Coliseum, 1994 (refunded September 26, 2002)	03/17/94	10/01/97-14	7.065%	\$ 73,400	\$ 13,080	\$ -	\$ 13,080
Seattle Center Coliseum, 1994 (defeased September 24, 2002)					26,140	-	26,140
Seattle Center Coliseum, 1994 (refunded February 26, 2003)					3,625	-	3,625
Seattle Center Coliseum, 1994 (defeased July 25, 2003)					4,935	420	4,515
Total Seattle Center Coliseum, 1994				73,400	47,780	420	47,360
<b>REVENUE BONDS</b>							
Municipal Light and Power							
1977 Parity	08/01/77	08/01/77-05	5.343	29,000	21,300	17,000	4,300
1992 Parity, Series B	09/09/92	08/01/93-10	5.706	75,730	44,625	44,625	-
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	182,345	182,345	-
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	97,255	2,575	94,680
1995A	09/28/95	09/01/99-20	5.663	60,000	1,770	1,770	-
Municipal Water							
1993 Parity, Refunding	06/25/93	12/01/93-23	5.570	256,225	168,530	168,530	-
Municipal Drainage and Wastewater							
1992 Refunding	01/01/93	12/01/93-22	6.060	21,725	17,715	17,715	-
<b>Total Refunded/Defeased Bonds</b>				<u>\$ 1,084,435</u>	<u>\$ 581,320</u>	<u>\$ 434,980</u>	<u>\$ 146,340</u>

## ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid approximately \$216,000 in 2002 and none in 2003 on the City's general obligation bonds. The City paid approximately \$51,179 and \$378,500 in 2002 and 2003, respectively, for ML&P revenue bonds; none in 2002 and 2003 for Water System revenue bonds, Drainage and Wastewater revenue bonds, and Solid Waste revenue bonds. The City estimated and recognized as of the end of 2003 an arbitrage rebate liability of approximately \$1.4 million on general obligation bonds, approximately \$1.3 million of which is estimated to be due in 2004. City Light recognized all of its arbitrage liability as current in the amount of approximately \$466,000 at the end of 2002 but none at the end of 2003 on ML&P revenue bonds. The City at December 31, 2003, estimated zero arbitrage liability on its Water System revenue bonds and Drainage and Wastewater revenue bonds but recognized a current arbitrage liability of approximately \$82,300 on its Solid Waste revenue bonds.

## (9) FUND EQUITY

The following table compares the total legally required encumbrance and other appropriation carryovers with the amounts reported in the balance sheet as reserved for encumbrances, capital improvements, continuing appropriations, debt service, endowments, and gifts.

Grant awards usually extend beyond the end of the fiscal year, and so any unspent budget amounts for grants at the end of the year are carried over to the following year. Funding for these grants comes from revenues that are anticipated to be received in the following years. For this reason it is not necessary to reserve part of the fund balance for the amount of the grants continuing appropriations.

In certain capital projects not all of the fund balances were appropriated. However, the total fund balances were reserved for capital improvements.

Additionally, some budget carryovers are not reported because either the fund balance is insufficient or the City Council plans to abandon the remaining budget.

**Table 9-1** **RESERVED FUND BALANCES**  
(In Thousands)

Governmental Funds	Legally Required Carryovers			Reserved for Encumbrances, Capital Improvements, Continuing Appropriations, and Debt Service	
	Outstanding Encumbrances	Continuing Appropriations	Total	Reported	Not Reported
<b>Budgeted</b>					
General	\$ 12,100	\$ 32,310	\$ 44,410	\$ 54,614	\$ (10,204)
Special Revenue					
Annually Budgeted/Operating	45,141	97,454	142,595	46,232	96,363
Non-Operating	3,082	16,056	19,138	25,139	(6,001)
Capital Projects	45,376	233,903	279,279	160,632	118,647
<b>TOTAL BUDGETED</b>	<b>105,699</b>	<b>379,723</b>	<b>485,422</b>	<b>286,617</b>	<b>198,805</b>
<b>Nonbudgeted</b>					
Debt Service	-	12,970	12,970	12,970	-
<b>TOTAL NONBUDGETED</b>	<b>-</b>	<b>12,970</b>	<b>12,970</b>	<b>12,970</b>	<b>-</b>
<b>TOTALS</b>	<b>\$ 105,699</b>	<b>\$ 392,693</b>	<b>\$ 498,392</b>	<b>\$ 299,587</b>	<b>\$ 198,805</b>

## (10) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The first three plans are considered as part of the City's reporting entity and are reported as pension trust funds. The State of Washington through the Department of Retirement Systems (DRS) administers and reports LEOFF.

### SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

#### Plan Description

The Seattle City Employees' Retirement System (SCERS) is a single-employer, defined-benefit public employee retirement system established and administered by the City in accordance with Chapter 4.36 of the Seattle Municipal Code.

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered by the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2003:

Retirees and Beneficiaries Receiving Benefits	4,876
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,389
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested and Nonvested	193
Active Plan Members, Vested and Nonvested	8,382

The system provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2 percent multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20-29 years of service, at age 57 or older with 10-19 years of service, and at age 62 or older with 5 to 9 years of service. These benefit provisions and all other requirements are established and may be amended by City ordinances.

The Seattle City Employees Retirement System issues a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement Office at 801 Third Avenue, Suite 300, Seattle, WA 98104-1562, or by telephone at 206-386-1293.

## Summary of Significant Accounting Policies

### Basis of Accounting

The Seattle City Employees' Retirement System is accounted for as a pension trust fund. The financial statements presented in this note were prepared using the economic resources measurement focus and the accrual basis of accounting as discussed in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Investments, including security lending transactions, as discussed in Note 3, are reported at fair market value. The fair market value of investments in common stock, international equities, fixed income, international fixed income, and short-term investments is based on the quoted market price. The fair market value of venture capital and real estate equities has been determined by independent appraisers. Securities and security lending transactions are reflected in the financial statements on a trade-date basis. Investment policies as set by the Retirement Board require that investments in any one corporation or organization may not exceed 5 percent of net assets available for benefits.

## Contributions and Reserves

Member and employer contribution rates are established by the Seattle Municipal Code Chapter 4.36.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. The employer contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total necessary contributions, including amounts necessary to pay administrative costs, are determined through biennial actuarial valuations.

Actuarially determined contribution rates are currently 8.03 percent for members and 8.03 percent for the employer. There are no long-term contracts for contributions outstanding and no legally required reserves.

As of December 31, 2003, based on the actuarial valuation of January 1, 2004, the actuarial value of plan net assets available for benefits was \$1,527.5 million, and the actuarial accrued liability was \$1,778.9 million. The unfunded actuarial accrued liability (UAAL) was \$251.4 million and the funding ratio was 85.9 percent.

Three-year trend information (in thousands) is shown below:

<u>Fiscal Year Ending December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
2001	\$ 11,571	282 %	\$ (48,078)
2002	12,496	293	(72,183)
2003	31,883	107	(74,501)

Annual pension cost (APC) and net pension obligation (NPO) (in thousands) were:

<u>Fiscal Year Ending December 31</u>	<u>Annual Required Contribution (ARC ) at End of Year</u>	<u>Interest on NPO</u>	<u>ARC Adjustment</u>	<u>Annual Pension Cost (APC)</u>	<u>Total Employer Contributions</u>	<u>Change in NPO</u>	<u>NPO Beginning Balance</u>	<u>NPO Ending Balance</u>
2003	\$ 34,100	\$ (5,775)	\$ 3,557	\$ 31,882	\$34,200	\$ (2,318)	\$ (72,183)	\$ (74,501)

Authority to change benefits and contribution rates rests on the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate. This is the reason why the City's contributions exceeded the ARC prior to 2002 and resulted in negative NPO amounts.

Following are the Employees' Retirement financial statements for fiscal year ending December 31, 2003:

Table 10-1

**STATEMENT OF NET ASSETS**  
**EMPLOYEES' RETIREMENT**  
**December 31, 2003**  
*(In Thousands)*

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Cash and Equity in Pooled Investments	\$ 11,755	\$ 10,710
Short-Term Investments	33,057	22,886
Securities Lending Collateral	148,227	133,817
Investments at Fair Value		
U.S. Government Obligations	179,339	197,904
Domestic Corporate Bonds	138,206	171,506
Domestic Stocks	753,245	469,489
International Stocks	172,921	240,705
International Bonds	11	-
Mortgages	53	56
Real Estate	114,774	63,800
Alternative/Venture Capital	<u>126,301</u>	<u>79,323</u>
Total Investments at Fair Value	1,484,850	1,222,783
Receivables		
Employer - Due from Other Funds	122	261
Employer - Other	48	65
Employee	1,916	609
Interest and Dividends	<u>2,752</u>	<u>4,428</u>
Total Receivables	4,838	5,363
Equipment, at Cost, Net of Accumulated Depreciation	<u>5</u>	<u>8</u>
Total Assets	1,682,732	1,395,567
<b>LIABILITIES</b>		
Refunds Payable and Other - Due to Other Funds	633	634
Refunds Payable and Other - Other	6,361	6,429
Securities Lending Collateral	<u>148,227</u>	<u>133,817</u>
Total Liabilities	<u>155,221</u>	<u>140,880</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,527,511</u>	<u>\$ 1,254,687</u>



**Table 10-2      STATEMENT OF CHANGES IN DEFINED BENEFIT PLAN NET ASSETS**  
**EMPLOYEES' RETIREMENT**  
**For Year Ended December 31, 2003**  
*(In Thousands)*

	2003	2002
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 34,201	\$ 36,600
Plan Members	36,243	39,388
Total Contributions	70,444	75,988
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	268,405	(149,224)
Interest	17,986	19,051
Dividends	7,727	10,630
Total Investment Activities Income (Loss)	294,118	(119,543)
Investment Activities Expenses		
Investment Management Fees	3,202	2,958
Performance Measurement Fees	94	77
Investment Custodial Fees	374	274
Total Investment Activities Expenses	3,670	3,309
Net Income (Loss) from Investment Activities	290,448	(122,852)
From Securities Lending Activities		
Securities Lending Income	2,121	2,636
Securities Lending Expenses		
Borrower Rebates	1,403	2,009
Management Fees	167	182
Total Securities Lending Expenses	1,570	2,191
Net Income (Loss) from Securities Lending Activities	551	445
Total Net Investment Income (Loss)	290,999	(122,407)
Total Additions	361,443	(46,419)
<b>DEDUCTIONS</b>		
Benefits	73,560	68,826
Refund of Contributions	13,218	12,020
Administrative Expense	1,838	1,748
Transfers Out	3	2
Total Deductions	88,619	82,596
Change in Net Assets	272,824	(129,015)
Net Assets - Beginning of Year	1,254,687	1,383,702
Net Assets - End of Year	<u>\$ 1,527,511</u>	<u>\$ 1,254,687</u>

Trend data on funding progress and employer contributions including pension information notes are presented in the Required Supplementary Information Section, Pension Plan Information.

## FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

### Plan Description

The Firemen's Pension and the Police Relief and Pension Funds are single-employer defined benefit pension plans that were established by the City in compliance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20 for each city and municipality of the state.

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and fire fighters on March 1, 1970, under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI - Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans; and those hired between March 1, 1970, to September 30, 1977, are eligible for a supplemental retirement benefit plus sick benefits under these plans. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death and disability pension benefits plus sick benefits for eligible active and retired employees. In addition these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 1,122 fire and 1,050 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare.

The only postemployment benefits the City provides, other than death benefits, are medical benefits in the Firemen's and Police Relief and Pension plans, and these are financed on a pay-as-you-go basis. Total postemployment medical benefits for Firemen's Pension were \$6.7 million in 2003 and \$6.6 million in 2002 and for Police Relief and Pension \$7.8 million in 2003 and \$7.1 million in 2002.

The Firemen's Pension and Police Relief and Pension benefit provisions are established in the state statute, RCW 41.16, 41.18, and 41.20 and may be amended only by the state legislature. Retirement benefits are determined under RCW 41.18 and 41.26 for Firemen's Pension and RCW 41.20 & 41.26 for Police Relief and Pension. Medical benefit payments for both plans are based on estimates of current and expected experience.

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2003:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	998	788
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	N/A	N/A
Active Plan Members, Vested	97	100
Active Plan Members, Nonvested	-	-

These pension plans do not issue separate financial reports.

### Summary of Significant Accounting Policies

The Firemen's Pension and Police Relief and Pension Funds are accounted for as pension trust funds. The financial statements presented in this note were prepared using the economic resources measurement focus and the full accrual basis of accounting as shown in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transaction or events occur. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

Investments are recorded at fair value as shown in Note 3. Fair value of investments is based on quoted market prices.

## Contributions and Reserves

Since these two pension plans were closed to new members effective October 1, 1997, the City did not need to adopt a plan to fund the actuarial accrued liability (AAL) but is paying benefits as they become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to \$0.45 per \$1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through operating transfers is provided by the General Fund to both pension funds as necessary. The Police Relief and Pension Fund also gets police auction proceeds of unclaimed property. Administrative costs for Firemen's Pension are financed by real estate property tax and fire insurance premium tax. Administrative costs for Police Relief and Pension are financed by police auction proceeds and General Fund support. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for Firemen's Pension and Police Relief and Pension Funds as of the January 1, 2004, valuation are:

Retirement System	Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
Firemen's Pension Fund	2001	\$ 8,252	100 %	\$ -
	2002	9,480	100	-
	2003	9,167	100	-
Police Relief and Pension Fund	2001	7,403	100	-
	2002	5,955	100	-
	2003	7,415	100	-

There are no securities held by the City for these pension funds except for the Firemen's Pension Actuarial Account described below. No loans are provided by the funds to the City or other related parties.

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. The funding policy does not fund for future medical liabilities. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of \$4.4 million as of December 31, 2003. Level contribution has decreased to \$9.2 million from \$9.3 million based on the full actuarial valuation as of January 1, 2004. No similar program has been established for the Police Relief and Pension Fund.

The AAL as of December 31, 2003, based on the actuarial valuation as of January 1, 2004, were \$89.1 million for Firemen's Pension and \$65.4 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations. Total payments for pensions, disability, and death benefits for Firemen's Pension were \$7.6 million in 2003 and \$7.5 million for 2002 and for Police Relief and Pension \$6.1 million in 2003 and \$6.4 million in 2002.

Following are the Firemen's Pension and Police Relief and Pension financial statements for fiscal year ending December 31, 2003:

**Table 10-3**

## STATEMENT OF NET ASSETS

**December 31, 2003**

*(In Thousands)*

	<b>Firemen's Pension</b>	<b>Police Relief and Pension</b>	<b>2003</b>	<b>2002</b>
<b>ASSETS</b>				
Cash and Equity in Pooled Investments	\$ 4,589	\$ 2,056	\$ 6,645	\$ 3,569
Investments at Fair Value				
U.S. Government Obligations	448	-	448	1,159
Receivables				
Employer - Due from Other Funds	8	-	8	5
Employer - Other	430	-	430	401
Interest and Dividends	2	-	2	12
Total Receivables	440	-	440	418
Equipment, at Cost, Net of Accumulated Depreciation	1	1	2	7
Total Assets	5,478	2,057	7,535	5,153
<b>LIABILITIES</b>				
Refunds Payable and Other - Due to Other Funds	2	33	35	41
Refunds Payable and Other - Other	674	1,224	1,898	1,761
Total Liabilities	676	1,257	1,933	1,802
Net Assets Held in Trust for Pension Benefits	\$ 4,802	\$ 800	\$ 5,602	\$ 3,351

**Table 10-4      STATEMENT OF CHANGES IN DEFINED BENEFIT PLAN NET ASSETS**  
**For Year Ended December 31, 2003**  
*(In Thousands)*

	<b>Firemen's Pension</b>	<b>Police Relief and Pension</b>	<b>2003</b>	<b>2002</b>
<b>ADDITIONS</b>				
Contributions				
Employer	\$ -	\$ 334	\$ 334	\$ 208
Employer - Transfers In	-	7,069	7,069	7,569
Taxes and Other	9,167	-	9,167	7,658
Total Contributions	9,167	7,403	16,570	15,435
Investment Income				
From Investment Activities				
Net Appreciation (Depreciation) in Fair Value of Investments	(28)	-	(28)	75
Interest	131	-	131	132
Total Net Investment Income	103	-	103	207
Total Additions	9,270	7,403	16,673	15,642
<b>DEDUCTIONS</b>				
Benefits	7,599	6,068	13,667	14,019
Administrative Expense	442	313	755	806
Transfers Out	-	-	-	480
Total Deductions	8,041	6,381	14,422	15,305
Change in Net Assets	1,229	1,022	2,251	337
Net Assets - Beginning of Year	3,573	(222)	3,351	3,014
Net Assets - End of Year	<u>\$ 4,802</u>	<u>\$ 800</u>	<u>\$ 5,602</u>	<u>\$ 3,351</u>

**Table 10-5      STATEMENT OF CHANGES IN**  
**POSTEMPLOYMENT HEALTH CARE PLAN NET ASSETS**  
**For Year Ended December 31, 2003**  
*(In Thousands)*

	<b>Firemen's Pension</b>	<b>Police Relief and Pension</b>	<b>2003</b>	<b>2002</b>
<b>ADDITIONS</b>				
Contributions				
Employer - Transfers In	\$ -	\$ 7,783	\$ 7,783	\$ 7,115
Taxes and Other	6,712	-	6,712	6,587
Total Additions	6,712	7,783	14,495	13,702
<b>DEDUCTIONS</b>				
Benefits	6,712	7,783	14,495	13,702
Change in Net Assets	-	-	-	-
Net Assets - Beginning of Year	-	-	-	-
Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Pension trend data on funding progress, employer contributions, and notes to pension information for Firemen's Pension and Police Relief and Pension are presented in the Required Supplementary Information under Pension Plan Information.

## LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

### Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. Employee contributions to the LEOFF Plans 1 and 2 accrue interest at a rate specified by the state Department of Retirement System (DRS). During fiscal year 2003 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plans 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the state legislature. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of nonstate employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state legislature. The state of Washington, through DRS administers LEOFF.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<u>Term of Service</u>	<u>Percent of FAS</u>
20+ years	2.0 %
10-19 years	1.5
5-9 years	1.0

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years-of-service credit; and the cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the FAS plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

Plan 2 provides non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53 and to reflect the choice of a survivor option.

Legislation passed in 2003 allows some members working as fire fighter emergency medical technicians (EMTs) to transfer service credit and contributions earned from Public Employees' Retirement System (PERS) Plan 1 or Plan 2 to LEOFF Plan 2 if, while employed for a city, town, county, or district, the EMT's job was relocated to a fire department from another city, town, county, or district. Members electing to transfer EMT service credit are required to pay the difference between the contributions the employee paid to PERS Plan 1 or Plan 2 and the contributions that would have been paid by the employee had they been a member of LEOFF Plan 2 plus interest.

Other legislation passed in 2003 requires Department of Fish and Wildlife enforcement officers formerly in PERS Plan 2 or PERS Plan 3 to become members of LEOFF Plan 2, effective January 27, 2003. Service prior to the effective date will remain in PERS.

There were no material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2003.

LEOFF pension benefit provisions have been established by RCW 41.26.

There are 488 participating employers in LEOFF as of June 30, 2003. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

	<u>Plan 1</u>	<u>Plan 2</u>
Retirees and Beneficiaries Receiving Benefits	7,987	244
Terminated Members Entitled To But Not Yet Receiving Benefits	22	376
Active Plan Members, Vested	1,146	10,076
Active Plan Members, Nonvested	<u>1</u>	<u>3,935</u>
TOTAL	<u>9,156</u>	<u>14,631</u>

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active City members (vested and nonvested) are 188 under Plan 1 and 2,036 under Plan 2.

The state Department of Retirement Systems prepares a stand-alone financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their web site at <http://www.wa.gov/drs>.

### Summary of Significant Accounting Policies

LEOFF is accounted for in pension trust funds of DRS using the economic resources measurement focus and the accrual basis of accounting. Plan members' contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buyout investments are determined by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. LEOFF pension plans have no investments of any commercial or industrial organization whose market value exceeds five percent or more of the plan's net asset.

### Contributions and Reserves

#### Funding Policy

Employers, plan participants, and the state provide funding for all costs of the system based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by DRS in accordance with RCW 41-45. All employers are required to contribute at the level required by the state law.

Required contribution rates for cities expressed as a percentage of current year covered payroll effective July 1, 2003, are:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense of 0.22%)	0.22 %	3.25 %
Employee	0.00	5.05
State of Washington Contributions	0.00	2.02

Administration of the LEOFF plans was funded by an employer rate of 0.22 percent of employee salaries.

The legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2003 the state contributed \$16.4 million to LEOFF Plan 2.

## Employer Contributions Required and Paid

LEOFF annual required contributions (in millions) and percentage contributed in accordance with the funding policy were:

Year	Plan 1		Plan 2	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2001	\$ 0.0	N/A	\$ 33.8	155 %
2002	0.0	N/A	43.7	91
2003	0.0	N/A	56.8	74

The City of Seattle required and actual contributions (in thousands) are shown in the following table. Percentages contributed are not available.

	Plan 1	Plan 2
2001	\$ 41	\$ 4,799
2002	38	4,217
2003	33	4,511

There are no long-term contracts for contributions under the LEOFF retirement plan.

## Reserves

**Member Reserves:** The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded. Member reserves (in millions) were:

	Plan 1	Plan 2
June 30, 2002	\$ 128.9	\$ 758.1
June 30, 2003	117.8	832.1

**Benefit Reserves:** The benefit reserves reflect the funded liability associated with all retired members. These reserves are increase by employer contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pension actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses. Benefit reserves (in millions) were:

	Plan 1	Plan 2
June 30, 2002	\$ 4,289.5	\$ 1,513.2
June 30, 2003	4,198.0	1,612.3



## DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

## (11) JOINT VENTURES

### SEATTLE-KING COUNTY DEPARTMENT OF PUBLIC HEALTH

The Seattle-King County Department of Public Health is a combined City and County health department providing personal and environmental health services throughout the county. The divisions are: Administrative Services, Community-Based Public Health Practice, Jail Health Services, Environmental Health Services, Prevention, Alcohol-Tobacco-Other Drug Prevention, and Community Health Services. King County is responsible for central administration of the department, with the City directly responsible for policy and funding control over the Seattle services. Both jurisdictions share ongoing financial responsibility for funding the department's administrative services, and the City does not have an equity interest. The formula for determining each jurisdiction's share is based on their budgeted expenditures of their respective divisions or programs in relation to the total budget. The King County Executive and the Mayor jointly appoint the Director of Public Health for a four-year term. The County and City Councils confirm the appointment. The Director of Public Health may be removed for cause by the King County Executive after consultation with the Mayor.

Table 11-1

#### JOINT VENTURE FINANCIAL DATA SEATTLE-KING COUNTY DEPARTMENT OF PUBLIC HEALTH (In Thousands)

Year Ended December 31	2003 Unaudited	2002 Audited
Assets	\$ 37,280	\$ 37,662
Liabilities	28,547	27,381
Fund balance	8,733	10,281
Revenues	163,953	160,632
Expenditures	180,980	172,564
Other Financing Sources (Uses) - Net	15,693	16,320
Net Increase (Decrease) in Fund Balance	(1,334)	4,387

Expenditures for Seattle services were \$39.7 million in 2003 and \$38.6 million in 2002. The City of Seattle accounts for its share of the department's expenditures in the General Fund. That support was \$12.0 million in 2003 and \$14.0 million in 2002. Included in that General Fund support was \$5.1 million in 2003 and \$5.7 million in 2002 for emergency health care services to low-income residents.

The Seattle-King County Department of Public Health is accounted for in the King County financial statements, which can be obtained from the King County Office of Financial Management, King County Administration Building, Seattle, WA 98104 (Telephone 206-296-7318).

## SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2003, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the WIA Youth In-School Program. For the year 2003 WDC paid \$0.8 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162.

## (12) COMMITMENTS

### GENERAL

#### Capital Improvement Program

The City adopted the 2003-2004 capital improvement program (CIP), which functions as a capital financing plan for the years 2003-2008 totaling \$2.3 billion. The endorsed CIP for 2003 was \$545.6 million, consisting of \$303.9 million for City-owned utilities and \$241.7 million for nonutility departments. The utility allocations are: \$128.9 million for City Light, \$109.5 million for Water, \$45.2 million for Drainage and Wastewater, \$5.6 million for Solid Waste, and \$14.7 for Seattle Public Utilities' technology projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

### CITY LIGHT

Power received under long-term purchased power agreements in average annual megawatts (aaMW) is as follows:

Table 12-1

**LONG-TERM PURCHASED POWER**  
*(In Average Annual Megawatts)*

	2003	2002
Bonneville Slice	390.9	379.6
Bonneville Block	147.1	152.3
Lucky Peak	33.4	33
British Columbia - Ross Dam	36	33.9
City of Klamath Falls	74.7	81
Wind Generation	24.7	12.2
Pend Oreille County Public Utility District	5.4	5
Grant County Public Utility District	35.5	37.3
Grand Coulee Project Hydroelectric Authority	26.9	28.3
Columbia Storage Power Exchange	3	11.3
Other	3.2	2.8
<b>Total Long-Term Purchased Power</b>	<b>780.8</b>	<b>776.7</b>
Peaking Capacity: British Columbia - Ross Dam	130	141

## Purchased and Wholesale Power

### Bonneville Power Administration

City Light (the Utility) purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides a block of power shaped to the Utility's monthly net requirements, defined as the difference between projected month load and firm resources available to serve that load. Additional amounts of power will be purchased and received throughout the term of the contract under the Slice portion of the contract. The terms of the Slice product specify that the Utility will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Utility's same percentage (4.6676 percent) of the expected costs of the system and is subject to true-up adjustments based on actual costs. The true-up adjustment billed by Bonneville for 2002 was \$10.4 million and was deferred pending rate recovery of the amount due and \$8.6 million was amortized in 2003; a credit of \$6.3 million for 2003 was received in January 2004. The actual amounts of firm and nonfirm energy will vary with water conditions, federal generating capabilities, and fish and wildlife restoration requirements; and expected amounts are as follows:

**Table 12-2** **EXPECTED ELECTRIC ENERGY**  
(In Average Megawatts)

Contract Year	Block Power <sup>a</sup>	Slice Power <sup>b</sup>
2004	137	334
2005	146	334
2006	184	334
2007-2010	260	334
2011	170	334

<sup>a</sup> Amendment No. 6, Bonneville Block Power, September 2003.

<sup>b</sup> Expected in critical water conditions.

Amendments to the contract through September 2003 provide that Bonneville will pay the Utility for energy savings through specified programs. The conservation augmentation program provides funding from Bonneville for a portion of the Utility's conservation costs in exchange for a reduction of the amount of power, by the amount of energy saved, that the Utility will purchase from Bonneville. The conservation and renewables discount (C&RD) program provides a Bonneville power bill credit for qualifying conservation, renewables, and low-income weatherization costs and donations to qualifying organizations. The programs are summarized as follows:

**Table 12-3** **CONSERVATION AUGMENTATION <sup>c</sup>**

Contract Year	Estimated Energy Savings	Cash Receipts (In Millions)	Revenues (In Millions)	C&RD Revenues (In Millions)
2002	9.00 <sup>d</sup>	\$ 20.0	\$ 3.3	\$ 2.1
2003	9.00 <sup>e</sup>	10.7	3.4	2.1
Total Through 2003		30.7		
2004	7.76	8.6		
2005-2006	7.25	12.2		
<b>Total Conservation Augmentation</b>		<b>\$ 51.5</b>		

<sup>c</sup> Cash receipts are being recognized over the life of the Bonneville contract. Revenues for 2002 included \$0.7 million for 2001.

<sup>d</sup> Energy savings for 2002 are being audited by Bonneville and may be revised.

<sup>e</sup> Energy savings for 2003 have not been submitted to Bonneville.

## *Energy Northwest*

In 1983 the Utility entered into separate net billing agreements with Bonneville and Energy Northwest (formerly, the Washington Public Power Supply System), a municipal corporation and joint operating agency of the state of Washington, with respect to sharing costs for the construction and operation of three nuclear generating plants. Under these agreements the Utility is unconditionally obligated to pay Energy Northwest a pro rata share of the total annual costs, including debt service, decommissioning costs and asset retirement obligations, to finance the cost of construction, whether or not construction is completed, delayed, terminated, or operation is suspended or curtailed. The net billing agreements provide that these costs be recovered through Bonneville rates. The Utility pays the amounts billed by Bonneville directly to Energy Northwest until the payment obligation has been fulfilled for the year. The billings for the remainder of the year are then paid to Bonneville. One plant is in commercial operation. Construction of the other two plants has been terminated.

## *Lucky Peak*

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract whether or not the plant is operating or operable.

To properly reflect its rights and obligations under this agreement, the Utility includes as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. In July 2002 the project issued revenue refunding bonds totaling \$56.0 million that bear interest ranging from 3.0 percent to 5.0 percent and mature July 1, 2004 through 2008.

## *British Columbia-Ross Dam*

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with power equivalent to that which would result by increasing the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. The power is to be received for 80 years and began in 1986. The Utility makes annual payments to British Columbia of \$21.8 million through 2020, which represent the estimated cost the Utility would have incurred for financing had the addition been constructed. The payments are charged to expense over a period of 50 years (through 2035). The Utility is also paying equivalent operation and maintenance costs. Payments made for this purpose were \$164,181 and \$163,997 in 2003 and 2002, respectively.

In addition to the direct costs of power under the agreement, the Utility incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

## *Klamath Falls*

In November 2000 the Utility and the City of Klamath Falls, Oregon, entered into an agreement for the purchase of energy and capacity from the Klamath Falls Cogeneration Project, a 500-megawatt unit consisting of two combustion turbines fueled by natural gas and steam generator. Under the terms of the contract, the Utility receives 100 megawatts of capacity from the project beginning on the project's on-line date of July 29, 2001, through July 31, 2006, with an option to renew the contract for an additional five years. The Utility may elect to displace all or a portion of the energy it is entitled to receive from this Project in any given month and elected to take power from the plant for nine months in 2003 and ten months in 2002. The Utility assumes gas price and exchange rate risks for natural gas from Alberta, Canada. In April 2001 the Utility entered into a separate contract that expired in December 2002 to swap variable Canadian dollar gas prices for a fixed U.S. dollar gas price and recognized \$12.3 million expenses in 2002.

## *Wind Generation*

In October 2001 the Utility entered into an agreement with PacifiCorp Power Marketing, Inc. (PPMI) for the purchase of energy and associated environmental attributes primarily from the State Line Wind Project, a facility consisting of 399 660-kilowatt wind turbines located in Walla Walla County, Washington, and Umatilla County, Oregon. The Utility will receive firm energy with an aggregate maximum delivery rate per hour of 50 megawatts through July 31, 2002, and 100 megawatts from August 1, 2002, through December 31, 2021. The Utility will also receive additional firm energy with an aggregate maximum delivery rate per hour of 25 megawatts from January 1, 2004, through June 30, 2004, and 50 megawatts from July 1, 2004, through December 31, 2021, from the State Line Wind Project or other qualifying new wind generation facility. PPMI may deliver, at their option, additional energy with a maximum delivery rate per hour of 25 megawatts beginning in 2004 from other qualifying wind generation projects. The Utility entered into a related ten-year agreement to purchase integration and exchange services from PacifiCorp. PacifiCorp receives State Line energy at the Wallula

Substation in Walla Walla County, Washington, and stores, reshapes, and delivers the power two months later. The utility entered into another related twenty-year agreement to sell integration and exchange service to PPMI.

## ***Other Long-Term Purchase Power Agreements***

The Utility also purchases energy from Public Utility Districts (PUDs) No.1 of Pend Oreille County and No. 2 of Grant County under agreements expiring August 1, 2005, and October 31, 2005, respectively; the Grand Coulee Project Hydroelectric Authority (the Authority) which includes the South, East, and Quincy Columbia Basin Irrigation Districts under 40-year agreements that expire from 2022 to 2026; and the Columbia Storage Power Exchange until expiration of the agreement on March 31, 2003. Rates under the PUD (excluding Pend Oreille County) and the Authority contracts represent a share of the operating and debt service costs in proportion to the share of total energy to which the Utility is entitled whether or not these plants are operating or operable.

Three new contracts were executed in March 2002 with Grant County to replace the contract expiring October 31, 2005. The agreements are effective November 1, 2005, and run concurrent with the term of the future federal relicense period.

## ***Transmission***

In July 2000 the Utility entered into an agreement with BPA for firm transmission service under BPA's open access transmission tariff from August 2000 through July 2025. In September 1994 the Utility entered into an agreement with BPA for ownership of 160 megawatts of BPA's Pacific Northwest north-south AC Intertie for \$34.3 million and annual operations costs. Other transmission contracts were executed in 1995 with Puget Sound Energy for transmission of South Fork Tolt power through 2020; in 1988 with Idaho Power for transmission of Lucky Peak power through December 2007; in 1983 with the Grand Coulee Project Hydroelectric Authority (GCPHA) (formerly, South Columbia Basin Irrigation District) for transmission of the output of the GCPHA's power plants over the 40-year terms of several related power contracts; and in 1983 (as amended in 1990) with Avista for transmission of the power output of the Summer Falls and Main Canal projects through October 2005.

## ***Minimum Payments Under Purchase Power Contracts***

The Utility's estimated payment under its contract with BPA, the PUD, irrigation districts, power exchange corporation, Lucky Peak Project, and British Columbia – Ross Dam, and with PPMI and Pacificorp for wind energy and net integration and exchange services for the period from 2003 through 2035, undiscounted, are:

**Table 12-4**                      **MINIMUM PAYMENTS UNDER PURCHASE POWER CONTRACTS**  
(In Thousands)

<u>Year Ending December 31</u>	<u>Minimum Payments</u>
2004	\$ 275,405
2005	284,191
2006	283,463
2007	280,518
2008	280,447
Thereafter <sup>a</sup>	<u>1,949,215</u>
<b>Total</b>	<b><u>\$ 3,353,239</u></b>

<sup>a</sup> Bonneville Block and Slice contract expires October 1, 2011. Bonneville transmission contract expires July 31, 2025. BC Hydro – Ross Dam operations and maintenance costs estimated at \$166,830 per year from 2039 to 2065.

The effects of a proposed Regional Transmission Organization and other changes that could occur to transmission as a result of FERC's proposed standard market design are not reflected in the estimated future payments.

Payments in 2003 under these long-term contracts totaled \$251.8 million, and payments under the transmission agreements amounted to \$30.0 million. Energy received represented 99.6 percent of the Utility's total purchases under firm power contracts during 2003.

## ***Wholesale Power Transactions***

Power transactions in response to seasonal resource and demand variations include purchases and sales at market under short-term agreements and exchanges of power under long- and short-term contracts. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from the Utility's hydroelectric facilities and some of

its long-term purchase power agreements. Accordingly, power transactions required to manage the Utility's load and dispose of surplus energy may vary from year to year. Following are short-term wholesale power contract commitments outstanding at December 31:

**Table 12-5** **WHOLESALE POWER TRANSACTIONS**  
(In Thousands)

	<u>2003</u>	<u>2002</u>
Wholesale Power Purchases Outstanding	\$ 1,911.9	\$ 2,940.9
Megawatt Hours (MWh)	54.7	88.8
Average Contract Purchase Cost per MWh	\$ 34.94	\$ 33.12
Wholesale Power Sales Outstanding	\$ 74,967.3	\$ 54,206.4
Megawatt Hours (MWh)	2,329.1	1,570.0
Average Contract Sales Price per MWh	\$ 32.19	\$ 34.53

In March 1998 the Utility was certified as a scheduling coordinator with the California Independent System Operator to submit schedules and sell power and ancillary services in California.

## SEATTLE PUBLIC UTILITIES (SPU)

### Water Fund

#### *Cedar River Watershed*

Seattle Public Utilities prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the Seattle Public Utilities and City Light in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The Federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$90 million (in 2002 dollars) over a period of 50 years. Expenses are expected to be funded from a combination of operating revenues and debt.

The Water Fund negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995 and approved in January 1996. The ozonation facility is under construction and expected to cost approximately \$100 million, of which \$42.4 million is expected to be paid in 2003 and 2004. The facility is expected to be operational in 2004. Expenditures are expected to be funded from a combination of operating revenues and debt.

### Drainage and Wastewater Fund

#### *National Oceanic and Atmospheric Administration (NOAA) Settlement*

In 1991 the City of Seattle entered into a consent decree with the United States, the Muckleshoot Indian Tribe, the Suquamish Indian Tribe, and the State of Washington to make restitution of up to \$12.1 million for alleged damages to the natural resources of Elliott Bay and the Lower Duwamish River by combined sewer overflow and storm drain discharges (the NOAA Settlement). The Elliott Bay Duwamish Restoration Program Panel, of which the City is a member, was formed to direct the project activities to be performed in accordance with the Decree.

The decree calls for payment of \$6.0 million for sediment remediation, \$2.5 million for habitat development, and \$0.1 million for reimbursement of costs for natural resources damage assessment. The Panel may allow for payment through in-kind services as approved. Additionally, up to \$2.5 million of real property and up to \$1.0 million of in-kind services for source control will be provided. SPU is charged with the responsibility of managing the City's obligation, which includes contributions from other departments.

Prior to December 31, 1996, the Fund settled a \$2.4 million liability through cash payments and in-kind services. In 1997 the Drainage and Wastewater Fund paid about \$6.2 million toward the liability. An additional \$2.2 million of the liability was settled by the Parks Department on behalf of the Fund through a donation of real property. This was reflected in the statement of revenues, expenses, and changes in retained earnings as an increase to other revenues. As of December 31, 2003, the remaining balance of this liability is estimated to be \$0.1 million.

Separately, the U.S. Environmental Protection (EPA) has indicated that it will require the cleanup and remediation of certain Duwamish sites under its Superfund authority. No specific requirements have been made from EPA at the time of this note. As of December 31, 2003, the Fund has accrued approximately \$3.4 million to cover its share of the remedial investigation and feasibility study costs for the Duwamish.

In April 2002 the Department of Ecology (DOE) named the City as a potential liable party (PLP) at the Gas Works Parks Sediment Site at the North Lake Union. The City, through many affected departments including SPU, is voluntarily negotiating with DOE and other PLPs to undertake a remedial investigation and feasibility study. As of December 31, 2003, the Utility has accrued approximately \$0.8 million for Gas Works Remedial Investigation costs through August 2003.

### ***Wastewater Disposal Agreement***

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by Seattle Public Utilities and other component agencies. The 2003 and 2002 payments to the Division were approximately \$79.2 million and \$90.9 million, respectively.

### **Solid Waste Fund**

#### ***Contractual Obligations***

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky items and backyard service. New residential collection contracts with two private companies were implemented in April 2000 and end March 2007. Total payments during 2003 and 2002 were approximately \$21.6 million and \$21.8 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two state-franchised haulers. In 1996 the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2006. In exchange, WWS agreed to change the contract prices from approximately \$45 per ton in 1996 to \$41.57 per ton beginning April 15, 1997, \$43.70 per ton beginning April 2002, and \$42.73 beginning April 2003. In addition, WWS agreed to reduce the price escalator in the contract from 90 percent of the Seattle-Tacoma CPI to 80 percent effective April 15, 1998. The Fund paid WWS approximately \$17.7 million in 2003 and \$20.7 million in 2002 under this contract.

For several years the City has been in negotiations with the state-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. Payments under these contracts totaled approximately \$15.6 million and \$12.4 million in 2003 and 2002, respectively. The contracts will expire on March 31, 2008, but the City retains an option to extend them to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc., and changes to the disposal contract. The first opt-out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of \$1.50 per ton in 2003, an additional \$1.50 per ton in 2005, and a final \$1.50 per ton in 2007.

#### ***Landfill Closure and Postclosure Care***

At December 31, 2003 and 2002, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, and changes in regulations.

In prior years the Fund delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

Subsequent to their closings, both Kent-Highlands and Midway landfills were declared Superfund sites by the federal government. In the same time period nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996 the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) were liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.2 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.

## (13) CONTINGENCIES

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over \$2.5 million per occurrence self-insured retention and includes a \$25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002, the City's excess general liability insurance covers losses over \$5.0 million per occurrence self-insured retention, with a \$25.0 million limit per occurrence and in the aggregate. There was no reduction of commercial insurance coverage during 2003. The City purchased annuity contracts to fund certain settlements in 2003 and in 2002. The City did not receive a settlement from an insurer in 2003 and in 2002. The City received a \$2.0 million insurance settlement in 2001, and it was within coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. Ultimate cost of settling claims was estimated for lawsuits, workers' compensation, and other claims based on independent actuarial studies performed as of year-end 2002, and as of year-end 2003 for healthcare. IBNR undiscounted totaled \$52.9 million and \$49.0 million at December 31, 2003 and 2002, respectively.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. Lawsuits, claims, and related expenses are paid by the General Fund; and City Light, Water, Drainage and Wastewater, Solid Waste, Engineering Services, and the retirement funds reimburse the former for payments and expenses incurred by these latter funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation subrogation recoveries were \$0.2 million and \$0.3 million in 2003 and 2002, respectively. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 3.161 percent for 2003 and 4.238 percent for 2002, the City's average annual rates of return on investments. The total discounted liability at December 31, 2003, was \$115.6 million, consisting of \$85.3 million for general liability, \$8.0 million for health care, and \$22.3 million for workers' compensation.



## RISK MANAGEMENT

Table 13-1

### RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS (In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>UNDISCOUNTED</b>								
Balance - Beginning of Fiscal Year	\$ 64,204	\$ 56,401	\$ 3,284	\$ 7,487	\$ 30,500	\$ 23,692	\$ 97,988	\$ 87,580
Less Payments and Expenses								
During the Year	(10,594)	(13,201)	(73,739)	(75,556)	(8,962)	(10,187)	(93,295)	(98,944)
Plus Claims and Changes in Estimates	38,869	21,004	78,665	71,353	3,266	16,995	120,800	109,352
<b>Balance - End of Fiscal Year</b>	<b>\$ 92,479</b>	<b>\$ 64,204</b>	<b>\$ 8,210</b>	<b>\$ 3,284</b>	<b>\$ 24,804</b>	<b>\$ 30,500</b>	<b>\$ 125,493</b>	<b>\$ 97,988</b>
<b>UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 67,409	\$ 51,323	\$ 8,210	\$ 3,284	\$ 18,236	\$ 21,666	\$ 93,855	\$ 76,273
Business-Type Activities	25,068	12,803	-	-	6,568	8,831	31,636	21,634
Fiduciary Activities	2	78	-	-	-	3	2	81
<b>Balance - End of Fiscal Year</b>	<b>\$ 92,479</b>	<b>\$ 64,204</b>	<b>\$ 8,210</b>	<b>\$ 3,284</b>	<b>\$ 24,804</b>	<b>\$ 30,500</b>	<b>\$ 125,493</b>	<b>\$ 97,988</b>
<b>DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 61,952	\$ 42,954	\$ 7,958	\$ 3,150	\$ 16,416	\$ 18,815	\$ 86,326	\$ 64,919
Business-Type Activities	23,393	11,676	-	-	5,913	7,669	29,306	19,345
Fiduciary Activities	2	65	-	-	-	2	2	67
<b>Balance - End of Fiscal Year</b>	<b>\$ 85,347</b>	<b>\$ 54,695</b>	<b>\$ 7,958</b>	<b>\$ 3,150</b>	<b>\$ 22,329</b>	<b>\$ 26,486</b>	<b>\$ 115,634</b>	<b>\$ 84,331</b>

## ENVIRONMENTAL

The following sites are in various stages of the federal government's Environmental Protection Agency (EPA) Superfund cleanup process or the parallel process under the state's Model Toxics Control Act (MTCA). In general, the total cleanup costs, claims for payment of government response costs, or the City's ultimate shares of responsibility are difficult to estimate accurately.

- Harbor Island - This complex Superfund site at the mouth of Duwamish River may result in City liability in a variety of contexts. Seattle City Light (SCL) was alleged to have scrapped some electrical transformers at the Upland area of this island. Remediation of this Upland area at the mouth of Duwamish River is largely completed. On the other hand, EPA has been investigating several separate operable units of marine sediment contamination in connection with the Seattle Public Utilities' (SPU) storm drainage discharges at the East Waterway site of this island. The Port of Seattle (Port) is in the process of dredging contaminated sediments from one of these operable units. The Port has notified the City that it considers the City a potentially responsible party (PRP) for some of the contamination. Furthermore, EPA has informally notified the City that it considers the City responsible for discharges into the West Waterway from a City storm drain. Ultimate City liability is indeterminate.
- Lower Duwamish Waterway Sediments - The Lower Duwamish Waterway was listed as a federal Superfund site in 2001 for contaminated sediments. In 2000 the City and three other parties entered into an administrative order on consent with the Environmental Protection Agency (EPA) and the Department of Ecology (Ecology) to conduct a remedial investigation/feasibility study regarding sediments in the Waterway. At some locations SCL's ownership, use, or releases from electrical equipment allegedly made the City responsible for some of the sediment contamination and made the City a PRP for part of the cleanup of two early action areas known as Malarkey/T117 and Slip 4. The City has entered into an agreement with King County, which is also a PRP for Slip 4, to perform further investigation of contamination that is being required by EPA. The City and King County are sharing the costs. The total cost for cleanup is estimated to be no more than \$8.0 million which would be shared by the PRPs. The City is also working toward a similar arrangement with

the Port of Seattle regarding further investigation and cleanup of the Malarkey/T117 site. The total cost for cleanup of this site is estimated to be no more than \$5.0 million which would be shared by the PRPs. The City is likely to sign an administrative order on consent to participate in the removal of contaminated sediments at one or both of these locations. In addition, The Boeing Company has alleged that SCL is responsible for contamination in sediments adjacent to Boeing Plant 2. Investigation of these allegations is ongoing. Furthermore, as a result of discharges from the City's storm drains and combined sewers, SPU has been alleged to be another PRP at several of the early action areas within the Lower Duwamish Waterway Superfund site. There are no current estimates for the cleanup costs at those locations. Cleanup of part of the Diagonal/Duwamish location was completed under a 1991 consent decree. However, there is a possibility that the City will incur further financial liability for that location due to remaining contamination. The City's ultimate liability at these locations, if any, is indeterminate.

- **Gas Works Park** - In 1999 the City and Puget Sound Energy (PSE) entered into a consent decree with Washington State Department of Ecology to perform cleanup of the park. In 2000 the City and PSE reached a final settlement on the allocation of cleanup costs at the park. In 2002 the Department of Ecology issued a notice to the City with regard to sediment contamination in the waters adjacent to Gas Works Park. The City as a whole, with SPU as the lead, is working with the Department of Ecology on an agreed order to investigate the sediment contamination. City liability is premised upon its ownership of upland properties where historic activities allegedly generated contaminants now found in the lacustrine sediments and as a result of discharges from storm drains and combined sewers. Ultimate City liability, if any, is indeterminate.
- **Puget Park** - The Parks Department owns this site, which was contaminated with cement kiln dust. The City has already spent \$0.4 million on voluntary remedial measures in cooperation with other parties. Additional voluntary remedial measures are underway. EPA and Ecology are concerned that contaminants still could be released from the site into the Lower Duwamish Waterway. Ultimate City liability is undetermined.
- **Water Tank Sites and Surrounding Properties** - SPU is voluntarily investigating and/or performing environmental remediation, including soil remediation, at approximately 16 locations of above-ground water storage tanks. The presence of lead and arsenic on such sites may be associated with past practices relating to removal of paint materials containing lead, the use of blasting materials with metals, and other building materials. The Department of Ecology has received reports of contamination at some sites. Ultimate City liability is indeterminate. This environmental project is expected to continue for several years.
- **Kent Highlands Landfill** - The Kent Highlands landfill is a closed Seattle municipal landfill that was designated as a federal Superfund site in 1990. The State Department of Ecology administers the site under MTCA pursuant to an agreement with EPA. Extensive remedial actions were undertaken during the 1990s pursuant to a consent order with Ecology originally signed in 1987 and last amended in 1996. The site is still on the Superfund list but was designated "construction complete" in 1995. In September 2003 Ecology issued a final periodic review for the landfill, which concluded that additional remedial investigation and possibly remedial actions are necessary at the landfill. The City disputes many of the conclusions in the report. Liability at this time is indeterminate.
- **Montlake Landfill** - SPU faces potential liability due to a King County project which will reroute storm water that currently goes to the West Point Treatment Plant and discharges it into the University Slough, which crosses property owned by the University where the former Montlake landfill was located. The landfill operated from about 1949 to 1964. The City's potential liability is due to its current operation of part of the storm drain system, its anticipated ownership of the new pipes once they are installed, and its former contribution of waste to the landfill. The University of Washington has periodically expressed concerns regarding future liability for releases from the landfill and now is concerned that increasing the flow of water into the slough may increase the risk of contaminants being released from the landfill. The City and the University are trying to reach a mutually agreeable resolution. The amount of City liability, if any, is undetermined.
- **South Park Landfill** - King County performed an environmental investigation focusing on soil, ground water, and subsurface gas in and around open space land the County owns in the South Park area of Seattle. Informally, the County has stated that it expects the City to share the costs of further investigation and, if necessary, cleanup. It has been alleged that between 1958 and 1968 the City used a portion of the property as a waste disposal site. City liability if any is unknown.
- **Other Environmental Issues** - There may be other properties which could be designated Superfund sites or could be designated under the state's MTCA. Demands with respect to such sites may be made on the City by regulatory entities, or the City may choose to clean them up voluntarily once they are identified. The City may also pursue third parties for contributions.

## OTHER MATTERS

- **Streetlight Litigation** - In January 2000 Seattle City Light began to provide streetlights as part of the electric utility service billed to ratepayers. In January 2001 the Washington State Attorney General issued an opinion that concluded the transfer

of streetlight responsibilities to the electric ratepayers in the suburban jurisdictions served by Seattle and in Seattle itself was unlawful. In April 2001 Seattle and a number of other affected cities filed a declaratory judgment action (Sonntag case) in King County Superior Court to resolve the issue. Moreover, three former City employees and one community representative filed a class action lawsuit (Okeson case) seeking refund of streetlight charges and other charges included in electric rates.

In 2002 the Washington Legislature enacted a law that affirmed the authority of municipal utilities to include streetlights and fire hydrants in their electric and water utilities respectively. The trial court found that this legislation controlled and provided retroactive affirmation of the authority of cities to include streetlights as part of their electric utilities paid for by general rates.

The Okeson plaintiffs, who were granted intervenor status in the Sonntag case, sought direct review by the Washington Supreme Court in both cases. In November 2003 the Supreme Court ruled in favor of the State in the Sonntag case and the plaintiffs in the Okeson case. The Supreme Court ruled that streetlights are an inherent government function and that by shifting the costs for streetlights to electric ratepayers, Seattle had imposed an unauthorized tax. The issues of the appropriate remedies flowing from this decision have returned to King County Superior Court which is currently holding trial on the scope and amount of remedies. The City recorded a general government liability of \$23.9 million in the 2003 government-wide financial statements.

As part of the Okeson litigation described above, plaintiffs have alleged that the Light Fund has been improperly bearing certain expenses that should have been borne by the General Subfund. These include expenses for One Percent for the Arts and other matters alleged to benefit general City government and not the electric utility. The amount they allege is a minimum of \$6.0 million but could be considerably more. The trial began on April 12, 2004. It is impossible to predict whether a material adverse outcome on this issue will occur.

- World Trade Organization (WTO) Ministerial Conference - The WTO Conference was held in Seattle from November 29, 1999, through December 3, 1999. To date, this event has spawned 335 claims and fifteen lawsuits against the City. All but five lawsuits have been settled. The likelihood that claimants' aggregate recoveries from the City will be material cannot be predicted.
- Capitol Hill Branch Library - This project involves the construction of the new Capitol Hill Branch Library. In November 2003 the contractor filed a claim in the amount of \$0.7 million for alleged contract changes, delays, and acceleration. The City has a claim against the contractor for liquidated damages of \$0.1 million due to untimely completion. The City is conducting an audit of the claim and an independent schedule analysis.
- Cedar River Habitat Conservation Plan - In December 2003 the Muckleshoot Indian Tribe appealed the grant by the United States National Marine Fisheries Service (NMFS) of an incidental take permit to the City for City activities in the Cedar River watershed. The City diverts water from the Cedar River to supply the Seattle metropolitan area and also has a hydroelectric facility on the river. Possible outcomes of the appeal include: requiring NMFS to perform a new environmental assessment, which SPU would have to fund; modification or revocation of the permit, which could restrict the City's water use or expose the City to claims under the Endangered Species Act; and modification of the Habitat Conservation Plan.
- Central Library - This project involves the construction of a new downtown central library. In 2003 the General Contractor/Construction Manager (GC/CM) for the project filed a \$16.9 million claim on the project related to shoring wall problems, steel fabrication, and steel design. This claim was heard by the contractually-required Disputes Review Board, which recommended the City pay \$3.7 million of the claim. The parties rejected the recommendation and anticipate litigation. Since then, the GC/CM has filed an additional claim of \$11.6 million; and another claim is anticipated, which would bring the total claims by the GC/CM to approximately \$30.0 million. The parties are examining whether there may be insurance coverage for these claims. The likelihood of a material adverse outcome and the cost to the City cannot be predicted.
- North Cascade Environmental Learning Center Project - This project is currently under construction. The contractor, RAS Construction, filed a claim in excess of \$3.0 million. Based on an analysis of the claim, the City has several defenses to the claim and a right to a substantial amount of liquidated damages due to the failure of the contractor to complete the project on time. However, this matter has been substantially complicated by the fact that the project had to be suspended in the fall of 2003 due to a landslide that blocked access to the site. The likelihood of a material adverse outcome in this matter cannot be predicted.
- Olympic Sculpture Garden - The Seattle Art Museum plans to develop a site, to be called the Olympic Sculpture Garden, adjacent to Elliott Bay. The site was the historic location of a bulk fuel transfer facility operated by Unocal. Unocal has performed remedial activities at the site. The City assumed specific liabilities when the site was sold to the Museum Development Authority, including liability for remaining contamination in the rights-of-way and tidelands. In 1999 the City's probable cost to address remaining contamination was estimated to be \$0.4 million. Current information indicates that the City's costs may exceed that estimate by an unknown amount.

- South Lake Union CSO Pipeline Project - This joint project of the City and King County is currently under construction. In May - June 2003 the contractor, Frank Coluccio Construction Company (FCCC), encountered significant problems in excavating an access shaft that was being dug for one of the tunneling portions of the project. FCCC has given notice of a differing site condition and a claim in excess of \$0.5 million is expected to be filed. The likelihood of a material recovery or a material adverse outcome in this matter cannot be predicted.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospects of adverse material outcomes therein are remote. Other than the aforementioned cases and claims liabilities recorded in the financial statements, there were no outstanding material judgments against the City.

## **GUARANTEES OF THE INDEBTEDNESS OF OTHERS**

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

### **Museum Development Authority of Seattle**

Special obligation refunding bonds issued October 12, 1994, in the amount of \$32,645,000. The outstanding amount at December 31, 2003, was \$27,795,000. The bonds will be fully retired by July 1, 2024.

### **Pike Place Market Preservation and Development Authority**

Special obligation refunding bonds issued on March 7, 1991, in the amount of \$1,376,671 for deferred interest of which \$1,152,178 was outstanding at December 31, 2003. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued November 1, 1996, in the amount of \$6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2003, was \$5,715,000. The bonds will be fully retired by December 1, 2021.

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$5,925,000, all of which was outstanding on December 31, 2003. The bonds will be fully retired on November 1, 2017.

### **Seattle Chinatown-International District Preservation and Development Authority**

Special obligation refunding bonds issued on September 15, 1996, in the amount of \$9,000,000. The outstanding amount at December 31, 2003, was \$8,130,000. The bonds will be fully retired by August 1, 2026.

Special obligation bonds issued on December 12, 2002, in the amount of \$10,490,000, all of which was outstanding on December 31, 2003. The bonds will be fully retired by October 1, 2032.

### **Seattle Indian Services Commission**

Special obligation bonds issued on March 28, 1994, in the amount of \$6,000,000, of which \$5,175,000 was outstanding on December 31, 2003. The bonds will be fully retired by November 1, 2024.

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$3,710,000, all of which was outstanding on December 31, 2003. The bonds will be fully retired on November 1, 2017.

## **(14) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES**

In 2002 the amount of fund balance designated for special purpose in the General Fund did not include fund balances for all the other subfunds summarized with the General Fund, amounting to \$31.8 million. Fund balance designated for special purpose and unreserved fund balance for 2002 were restated to properly report said amount.

Under governmental activities, prior-period adjustments were made for \$1 million for proceeds from the sale of a building not reported in 2002 and \$2.5 million of accumulated depreciation for prior years which increased net assets by \$3.5 million. The beginning balance of construction work in progress was decreased by \$12.3 million and the beginning balance of land and land rights was also decreased by \$15.5 million. Pass-through expenditures were reclassified from economic

environment to health and human services and general government in 2002 with no net change in total expenditures. Other minor reclassifications were made to the 2002 amounts for comparability and consistency.

Under business-type activities the Water, Solid Waste, and Drainage and Wastewater Funds reclassified prior-year deferred charges to plant in service.

The 2002 columns of the 2003 statements for nonmajor governmental funds have been restated to include the Libraries for All Fund, which was a major governmental fund in 2002 but a nonmajor governmental fund in 2003.

In July 2003 the Emerging Issues Task Force (EITF) reached consensus on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That are Subject to FASB Statement No. 133 and Not Held for Trading Purposes as Defined in EITF Issue No. 02-3*. This EITF issue requires that revenues and expenses from the City Light Department's settled energy contracts that are "booked out" (not physically delivered) should be reported on a net basis as part of operating revenues. As allowed by this EITF issue, the Light Fund applied these provisions for the entire year in 2003 and reclassified 2002 to conform to current year presentation. Booked-out power transactions reduced revenues and expenses by \$21.3 million and \$10.7 million in 2003 and 2002, respectively.

### (15) SUBSEQUENT EVENTS

On April 1, 2004, the City defeased \$4.3 million of the 1994 limited tax general obligation (LTGO) Coliseum bonds. The City placed \$4.6 million in an irrevocable trust to provide for future debt service payments on the bonds.

Pursuant to City Ordinance 121414 passed on March 22, 2004, the City is authorized to issue LTGO refunding bonds to pay all or part of the cost of refunding certain of the City's outstanding LTGO bonds, 1995; the tax exempt LTGO bonds, 1996, Series A; LTGO bonds, 1997, Series A; and LTGO bonds, 1999, Series B (various purpose). In May 2004 the City issued \$91.8 million LTGO refunding bonds, 2004, to refund \$88.0 million of the LTGO bonds, 1996, Series A. The City placed the proceeds of the refunding bonds in an irrevocable trust for the purchase of federal, state, and local government securities to provide for the future debt service of the refunded bonds. These refunded bonds are expected to be called on January 15, 2006.

The streetlight litigation has continued and on May 21, 2004, after the first phase of the remedies trial, the Superior Court issued some initial rulings. The judge ruled that the City's General Subfund would have to repay the Light Fund for four years of streetlight costs in the amount of \$23.9 million. For the same four-year period the Light Fund would have to repay the ratepayers. The judge did not require prejudgment interest, but required that the refunds include a reasonable rate of return for institutional and commercial ratepayers. Because the trial court could reconsider its initial rulings, and in light of the possibility of appeals, it is impossible to predict the ultimate outcome of this litigation.

Another litigation issue concerns whether the General Subfund should bear certain expenses that have been charged to the Light Fund. As part of her initial rulings on the first phase of the remedies trial, the judge determined that Seattle City Light cannot participate on the City's One Percent for Art program, fund the Mayor's office staff work related to City Light, or participate in the City's small business assistance program. As to many other general City services, the Court determined that the City could charge Seattle City Light for a portion of those services. The Court will rule on the appropriate assessment and the basis for the allocation of that assessment after conclusion of the trial's second phase. It is impossible to predict whether a material adverse outcome will occur.